THE ECONOMIC FUTURE OF METROPOLITAN MILWAUKEE

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-SEVENTH CONGRESS

FIRST SESSION

OCTOBER 8 AND 9, 1981

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CONTENTS

WITNESSES AND STATEMENTS

THURSDAY, OCTOBER 8, 1981

	Page
Reuss, Hon. Henry S., chairman of the Joint Economic Committee: Opening statement	1
Maier, Hon. Henry W., mayor, Milwaukee Wis	5
McKelvey, Chandler L., secretary, Wisconsin Department of Development	10
Biever, Father Bruce F., Society of Jesus, vice president for university relations, Marquette University, accompanied by James L. Sankovitz, vice president for governmental relations; Raymond J. Kipp, dean, college of engineering; and George E. Reedy, Nieman professor, college of journalism	37
Norman, Jack, Institute for Community Education, Milwaukee, Wis	52
Haney, Phillip, steward, Local 72, UAW, Kenosha, Wis	58
Obremovich, Clara, Allied Council for Senior Citizens	61
Strain, Laura, Milwaukee area Technical College	62
Quindel, Barbara Zack, attorney, Percy, First, Reiher, Lerner & Quindel	65
Royster, Karen, Local 24, Sheet Metal Workers Union	68
Leiner, Sophie, Local 438, United Automobile Workers	71

FRIDAY, OCTOBER 9, 1981

Reuss, Hon. Henry S., chairman of the Joint Economic Committee: Opening statement	73
Rouse, James, chairman, Rouse Co., Columbia, Md	74
Krikorian, R. V., chairman, Rexnord, Milwaukee, Wis	86
Whitney, C. R., president, Allen-Bradley Co., Milwaukee, Wis	88
Ferguson, Francis, chairman, Northwestern Mutual Life, Milwaukee, Wis	91
Kuehl, Hal, chairman, First Wisconsin National Bank, Milwaukee, Wis	94
Hankins, Gerard S., president, North Milwaukee State Bank, Milwaukee, Wis	96
Roethle, John D., president, Anderson-Roethle & Associates, Inc., Milwaukee, Wis	99
Zien, Burt, chief executive officer, Zien Mechanical Contractors, Inc., Milwaukee, Wis	105

AFTERNOON SESSION

Reuss, Hon. Henry S., chairman of the Joint Economic Committee: Opening statement	125
Schmitt, John, president, Wisconsin AFL–CIO	125
Koenig, Ralph, director, region 10, United Auto Workers	128
Elliott, James, director, Milwaukee Building Trades Council	131
Horton, Frank, chancellor, University of Wisconsin at Milwaukee, accompanied by Eric Schenker, dean, school of business; and Ronald Heilmann, professor, financial institute	142
Ward, Edward J., president, Milwaukee Private Industry Council, Inc	157
Lee, Hon. Mordecai, chairman, Committee on Urban Affairs, Wisconsin State Assembly	162
Franke, Harry, cochairman, Goals for Greater Milwaukee: 2000	169
Goshorn, Dawn, Preservation Action	171

SUBMISSIONS FOR THE RECORD

THURSDAY, OCTOBER 8, 1981

Page

Haney, Phillip: Prepared statement 59
Langer, Victor: Prepared statement 63
Maier, Hon. Henry W.: Prepared statement 11
McKelvey, Chandler, L.: Prepared statement 25
Norman, Jack: Prepared statement 55
Quindel, Barbara Zack: Prepared statement 67
Reuss, Hon. Henry S.: Letter to Chairman Reuss from Representative Clement J. Zablocki, dated October 8, 1981, expressing his interest in the hearing and regret that he could not attend in person 1
Royster, Karen: Prepared statement 69
Sankovitz, James L.: Letter to Representative Reuss and Senator Proxmire from James L. Sankovitz, vice president for governmental relations, Marquette University, dated October 9, 1981, regarding new methods to obtain capital for student aid 51

FRIDAY, OCTOBER 9, 1981

Roethle, John D.:
Letter to Chairman Reuss from John D. Roethle, president, Anderson-Roethle & Associates, Inc., dated October 27, 1981, specifying the growth figures for three firms in southeastern Wisconsin 104
Tables—
Wisconsin inflow-outflow 105
Ten top firms in the State of Wisconsin 105
Zien, Burt: Prepared statement 110

AFTERNOON SESSION

Gilman, John, excutive director, Wisconsin Committee for Peace and Justice: Statement of 175
Goshorn, Dawn: Prepared statement 174
Hoffer, Robert, chairman, Metropolitan Milwaukee Association of Commerce: Statement of, with an attachment 177

THE ECONOMIC FUTURE OF METROPOLITAN MILWAUKEE

THURSDAY, OCTOBER 8, 1981

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 2 p.m., in the Federal Building, Milwaukee, Wis., Hon. Henry S. Reuss (chairman of the committee) presiding.

Present: Representative Reuss and Senator Proxmire.

Also present: James K. Galbraith, executive director; Mary E. Eccles, professional staff member; and John D. Kupper, staff assistant to Representative Reuss.

OPENING STATEMENT OF REPRESENTATIVE REUSS, CHAIRMAN

Representative REUSS. Good morning. The Joint Economic Committee will be in session for a hearing on Milwaukee's economic future.

My colleague, Senator Proxmire, will be joining us later in the afternoon.

My colleague, Congressman Zablocki, had looked forward to being with us on both days, but as you know, he must attend the funeral of Anwar Sadat in Egypt and is taking off later today and cannot be with us.

At this point, and without objection, I would like to place in the hearing record a letter I received from Congressman Zablocki.

[The letter follows:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., October 8, 1981.

HON. HENRY S. REUSS,
Chairman, Joint Economic Committee, Dirksen Senate Office Building, Washington, D.C.

MR. CHAIRMAN: I sincerely regret that I cannot be here today to take part in the Joint Economic Committee hearings on the economic future of metropolitan Milwaukee. I commend you for holding these very relevant hearings which I had hoped to be a part of.

As you know, Mr. Chairman, subsequent to the tragic assassination of President Anwar Sadat, it was requested that I join the U.S. delegation to Egypt to attend President Sadat's funeral.

While I will not be able to attend the JEC hearings in person, I look forward to hearing the comments of the many esteemed witnesses who will be discussing the economic future of our greater Milwaukee area. I note that as Chairman you have requested the input of state and local government leaders as well as business, labor and academic experts. Quite rightly we need the input of all segments of our community, for only through such cooperation will we realize our mutual goals of reducing inflation and increasing employment.

With respect to our current 7.5 percent unemployment level in Milwaukee, I mention that on a daily basis I am contacted by workers many of whom are already laid off, many who fear for their jobs. I trust that the Committee will be examining the employment question to determine what can be done at all levels to save these jobs. I also hope the Committee will examine ways to increase productivity and enhance expansion to new business activities as well.

Like you, Mr. Chairman, I am interested in the Sun Belt versus the Frost Belt question, and I trust the Committee will be examining the question of whether firms are leaving Milwaukee. I am also interested to hear whether we might be able to improve our international trade position in the world by finding markets abroad for Wisconsin products.

Finally, Mr. Chairman, I will be interested to hear what our community leaders see as possible solutions to bolstering our economy. How can we in the public sector help? How can we facilitate communication between the government, labor and business? And, last but not least, how can we best utilize the many talents of our Milwaukee citizens to restore a healthy economy to our community?

I look forward to receiving the results of the Joint Economic Committee's investigation.

Sincerely,

CLEMENT J. ZABLOCKI,
Member of Congress.

Representative REUSS. The statutory duty of the Joint Economic Committee is to study and make recommendations concerning public and private policies which will produce maximum production, maximum employment, and maximum purchasing power. We spend a lot of our time on the big subjects of interest rates, fiscal policies, world trade, and monetary policies.

But we are also concerned with micro-economics, particularly as it relates to specific metropolitan areas and regions. Thus, today we inquire into the economic future of Metropolitan Milwaukee. We are confident that our panels of witnesses from business, labor, government, and the academic world can give us some guidance to capitalize on Milwaukee's strengths and to overcome problems.

This may seem like an unpropitious time to consider the economic future of the Milwaukee area. The national economy—plagued by intolerable levels of inflation and unemployment, record high interest rates and sluggish productivity growth—is obviously in disarray. Major Midwestern cities remain devastated by losses in auto, steel, and other heavy industries. Double-digit unemployment still afflicts Detroit, Cleveland, Youngstown, Gary, and dozens of other cities throughout Michigan, Ohio, Indiana, and western Pennsylvania.

In comparison, Milwaukee appears to hold a position of strength. The area made a valiant recovery from the recession of the mid-1970's. Between 1975 and 1979, employment grew by about 11 percent, or nearly 70,000 jobs. The unemployment rate dropped to below 4 percent. While Milwaukee's unemployment rate is now 7.5 percent—somewhat above the national average—it's a far cry from that of Detroit or Cleveland.

Nonetheless, the region's problems have not bypassed Milwaukee. We have seen job opportunities erode significantly in the last 2 years. In the first 6 months of 1981, over 53,000 of our residents, on the average, were unemployed—up from 28,000 in 1979.

The overwhelming emphasis of the Milwaukee economy has traditionally been in manufacturing, particularly machinery, electrical equipment, and metalworking. Milwaukee has done much in recent

years to foster the manufacturing sector, particularly by the provision of industrial parks in the northwest area land bank and by fostering industrial development elsewhere such as in the Menomonee Valley and in Park West.

But overreliance on manufacturing as a source of jobs and growth would not be prudent. Fortunately, the decade of the 1970's has been some diversification away from manufacturing and toward services. Sparkling success stories, like those of Manpower and Mortgage Guarantee Insurance Co. show what can be done when energy and innovation are on tap.

The service sector in Milwaukee increased by nearly 60 percent between 1970 and 1980, accounting for close to one-half of all employment gains in the area. Over the same period, the finance, insurance, and real estate sector increased by 40 percent. The leading sources of expansion were firms providing various business services, such as advertising, computer and data processing, public relations, management consulting, equipment rentals, stenographers, detectives, and interior designers. Smaller, but still sizable gains, occurred in repair services, legal services, and hotels and motels.

While expanding our service sector, we should continue to encourage manufacturing. Milwaukee's reputation as machine shop for the world needs to be maintained, despite the chilling effect on capital investment of high interest rates, and the temporary ascendency of the Sun Belt over the Cold Belt in new manufacturing facilities.

One old-line Milwaukee manufacturing activity, the breweries, particularly needs some attention. Miller is going great, but Schlitz is experiencing severe problems, and Pabst is trying to recoup its fortunes. Surely the aim of local policy ought to be to see that over the next months the business and brewing facilities of Schlitz are retained in Milwaukee, whether under a strengthened Pabst, under a newly formed entity building upon the present Schlitz organization, or in some other way.

A wide variety of factors influence decisions on business location. It's not a simple matter of shopping around for the most favorable tax or regulatory concessions, although State and local tax and regulatory policies are obviously relevant. Several studies, including a recent survey for the Joint Economic Committee, have found that businesses place great value on the quality of life in an area. The condition of physical infrastructure, of transportation systems, public schools and facilities, neighborhoods and crime are major considerations, as are the characteristics of the labor force, wage scales, and energy supplies.

Here are some questions connected with the economic future of Milwaukee:

1. LABOR-MANAGEMENT

How closely can labor, management, and government work together to increase productivity and improve labor relations?

2. MERGERS

What is the effect on Milwaukee jobs of mergers and takeovers? Have they resulted in firms and suppliers leaving Milwaukee?

3. THE FEDERAL REQUIREMENT

Could not portions of the Federal establishment now in Washington, such as Housing and Urban Development, Transportation, Interior, Pollution Control—profitably be decentralized to a place like Milwaukee?

4. RETAIL TRADE

This will get a big boost in a few months when the Grand Avenue Mall will be added to a revitalized west downtown, led by the new Hyatt Regency and the Federal Office Building. Will the momentum continue?

5. FINANCE

Can Milwaukee's financial establishment give adequate backup to economic expansion? Do Wisconsin's banking and other financial laws need revision?

6. CORPORATE HEADQUARTERS

How can new ones be attracted? What happens to a corporate scout who emerges from the Hotel Pfister one morning to see an empty Chapman's Department Store, a large hole in the ground on the site of the Pabst Building, and a shabby ruin of the once-proud Iron Block?

7. HEALTH

Could we not, by better packaging of existing health services, become in a small way another Cleveland, Houston, Topeka, Kans., or Rochester, Minn.? Milwaukee's eye clinic and heart bypass surgery are nationally renowned. Wouldn't they respond favorably to promotion?

8. UNIVERSITIES

Are our two great universities, Marquette and UWM, together with other institutions doing all they can to work with both manufacturing and services in research and development? Stanford and MIT's private sector efforts in electronics can surely be a standard for comparison.

9. TOURISM

Why can't Milwaukee do more with tourism? In our gateway position to the wonders of Wisconsin, with our superb cultural, convention, and sports facilities, it would seem that what is needed is new hotel capacity rather than worrying about whether the existing capacity will be sufficiently used.

10. REHABILITATION

Can't we revive our construction industry, for offices, shops, businesses, and residences, by concentrating on rehabilitation? Milwaukee is blessed with great numbers of fine older buildings which could be modernized at a fraction of the cost of building anew. What with the new Federal investment tax credits and liberalized depreciation for rehabilitation of buildings 30 and 40 years old and historic buildings, a huge pool of activity could lie ahead.

11. STATE/LOCAL GOVERNMENT

New industry, whether service or manufacturing, wants to know that State-local government is economical and efficient. In fact, Metropolitan Milwaukee government is still fragmented and ineffective, with too many jurisdictions and officials, too great disparities in revenues between richer and poorer areas, too many uncontrollable sewerage commissions and expressway commissions and planning commissions police departments, where responsibility is difficult to fix and the buck is easy to pass.

12. TRANSPORTATION

Why can't Milwaukee become a major air terminus? Will Milwaukee profit by improved passenger rail service? Can Milwaukee's port be upgraded? Will Milwaukee's mass transit be adequate?

The better answers we can get to these questions, the better will be Milwaukee's economic future.

We are very fortunate in that our first witness is the chief executive of the city of Milwaukee, the dean of big city American mayors, and a mover and shaker for jobs and economic growth for many years.

Even before Henry Maier became mayor, his pioneering work in the legislature on establishing the University of Wisconsin at Milwaukee has brought us an asset that has proved very effective so far and will prove even more effective in the future.

Mayor Maier's work with the Department of City Development. with the northwest side land bank, with the Menomonee Valley rehabilitation, with downtown development, with neighborhoods, are all very much part of the future economic growth picture.

So we're honored and delighted to have you here, Mayor Maier, and would you just proceed in whatever way is convenient to you.

STATEMENT OF HON. HENRY W. MAIER, MAYOR, MILWAUKEE, WIS.

Mr. MAIER. Mr. Chairman, I certainly want to thank you very much for presenting this opportunity to comment on the economic future of the city of Milwaukee. I will look forward to the published report.

I am acquainted with the past reports of the Joint Economic Committee, and I think that some of them have been monuments, and I am sure yours will be a monument and that maybe some of the things you are doing now will be the greatest contribution to urban affairs that we shall have in these drought years that are now no longer just foreseeable, they are here.

As you suggest, Mr . Chairman, economic development has been my major priority. As a legislator I offered the first bill in Wisconsin calling for industrial revenue bonding to help us compete at that time with the South; and I was defeated at that time, but later we reintroduced and put the thrust and drive behind that bill and passed it in the legislature.

When I took office, I made it a top priority to call for the division, the first municipal Division of Economic Development in the United States. I think the city has generally achieved a great track record, despite the fact that this track has often been uphill, because in 1960

our industrial assessments were in a state of decline, when I took office. In 1962 we pioneered the first industrial land bank program after having formed the first Division of Economic Development; and I shall go into some of the specifics of what we have tried to do, Mr. Chairman, pursuant to your suggestion as it was developed in your letter to me.

The industrial land bank has attracted about 55 companies to our industrial land banks on the north and south sides of the city of Milwaukee. These firms have invested nearly $110 million in plant and equipment, generating 3,100 jobs, and contribute $1.9 million in annual property tax revenue to our city and the overlapping taxing jurisdictions in this area.

We have made extensive use of industrial development revenue bonds to provide low-cost, long-term financing for manufacturing expansion in our city. In the last 8 years we have assisted 51 companies with a total of $101 million in industrial revenue bonds to generate almost 1,600 new jobs in our city.

With the assistance of the Economic Development Administration, we have implemented a comprehensive program for the Menomonee Valley, which is in our heartland industrial area which has declined in recent years.

We have cleared out substantial tracts of land which had literally deteriorated to junkyards, and new industrial sites are now being connected by a rebuilt street system; and so far we are one-third of the way to our goal of generating almost 600 new jobs by development of the Valley.

Now, to offset the inhibiting effects of high-interest rates, our Milwaukee Economic Development Corporation has used both SBA and urban development action grant programs to provide low-cost incentive financing for manufacturing expansions. We have stimulated $11 million in new plant and equipment investment in the last 3 years, generating hundreds of new jobs for Milwaukee residents through those two Federal programs.

The UDAG program has, as you know so very well, Mr. Chairman, been very productive in the city of Milwaukee. We have received grants for five projects, including the Grand Avenue Mall retail mall, and the Trammell Crow Business Center on the northwest side.

Now, these projects will leverage investment from the private sector totaling over $200 million in the city of Milwaukee and creating over 4,000 jobs.

Now, as we know, these programs contribute significantly to the economic vitality and the tax and employment bases of our city and the entire metropolitan area, and we believe it is a tragedy, as we know you believe, that the Federal Government is cutting back in economic aid at a time that local economies remain in need.

Now, it is true that the overall labor force in Milwaukee has remained fundamentally stable; and while we have followed to some degree the nationwide shift of employment from the manufacturing to the service sector, our manufacturing base continues to provide over 30 percent of our employment, a higher percentage than in the Nation as a whole.

For the last 8 months, however, the unemployment rate in the city of Milwaukee has exceeded the Nation's unemployment rate, and

this is pretty much of a rarity, at least the extent of it. We have a rate now of 7.8 percent compared to the U.S. rate of 7.5 percent. Even the rate in the State of Wisconsin is higher than the national rate, and this is unusual. In fact, I understand that it is unprecedented.

Last month the Labor Department designated us a labor surplus area, a more permanent badge of economic distress.

While our city has well-established industry, none of our local companies are included in the listings of the most rapidly growing small firms in the Nation. I'm sure this committee realizes that most of the new jobs will be created by smaller firms and not today's corporate giants. We need the means to spur this dynamic component in our economy.

But contrary to propaganda we've received recently, we do have a large number of corporate headquarters in Milwaukee, and most of them are here to stay. Of course, we recognize there have been some increases in attempts by outside firms to acquire Milwaukee firms, and very few of these acquisitions have been followed by a program of expanding the local firm. They certainly haven't created any new jobs.

Now, that is not true of an organization, for instance, such as the Miller Brewing Co., which has exercised the best kind of corporate leadership in this country, in the community. They have been most community minded, they have responded to their call for community duty, and they have certainly been a major asset.

I'm only sorry for the Wall Street Journal which seems to have a thing on recently for Pabst Brewing Co., along with the city of Milwaukee; and I suspect that perhaps at least one of their writers has had some sort of a frustrating experience in this city at one time or another, because it seems to reflect in some of the stories. They completely overlook the giant growth and expansion of the Miller Brewing Co., in this community; and, of course, they completely overlook the giant existence of a national headquarters in MGIC, and as you suggested, also manpower.

And I could go on, because we have anything but losers here, and some of the losers in terms of the national headquarters, I tend to think will not be—in the intermediate range, not the long range—not be considered of great magnitude, because I believe there will be replacements. I'm very optimistic about that.

But it is ironic that most recent flurry of acquisitions in our community have coincided precisely with the President's new tax cut program. It would certainly appear that the stimulant being provided to the Nation's corporate sector is one of encouraging them to acquire someone else's assets rather than to invest in new plant and equipment and generate new jobs.

As far as the cities go, we're not better off than we were 10 months ago, which is the effective date of the business tax breaks in the President's economic program.

Instead of a national urban policy, we now have an antiurban policy in the White House. Instead of the administration of the Great Society, we now have administration of High Society, and our central cities are left begging at the gate, and I don't believe that the larger problems in these cities are going to be attacked unless there is a changing of the guard, unless the Congress takes it upon itself to fill this void in na-

tional policies; and perhaps we will have to wait until after 1982 before that can be achieved; and I pray that it will be achieved in 1982 and that the leadership will then come from the Congress to turn this thing around.

But in the present context, I should like to make a few specific suggestions as you called for, Mr. Chairman. Since it appears to be an immediate issue at this time, let's look at industrial development revenue bonds.

When you consider both the pluses and the minuses of IRB's, it seems to me that an overhaul of their use is in order, not complete elimination as the President is proposing.

Now, I have taken a very hard line on this whole concept of industrial revenue bonds. As I told you, Mr. Chairman, as a legislator I introduced a bill to allow us their use in Wisconsin. I wrote an article and series in the Milwaukee Labor Press on the whole question of industrial development and use of these bonds. And for a long time I have had the fixation that they should be used for nothing except industrial development.

As you know, they have been used to build discount department stores and McDonald's, and that's the sort of nonsense which is an abuse of the whole concept. In Milwaukee I have been asked to use them for hospitals, and I have said no, which makes me very cruel.

But I know that it's been kind of a lonely battle to hold to the firm principle that they ought to be used for industry, for economic development.

Now, I would apply that principle also to a giant commercial development with a civic nature with an obvious and visible support, but I think that that ought to be consonant with a public policy that has blessed that particular development.

And I would refer, for instance, to such a thing as our own downtown development. If the need were to arise, I would certainly subscribe to using it in that economic sense, because that is the sense in which the bonds were constructed.

The bonds were meant to bring dollars into the community; not to finance industries where we're taking in each other's laundry, such as one alderman wanted to do in Milwaukee by using them for an automobile dealer.

A large development, such as our downtown development, is an example of an economic enterprise that is nonindustrial. It is designed to bring dollars into the local community and not just recirculate dollars that are already created in the community. I think this is a very important point.

I hope that the committee will agree that we should not allow the principle of these bonds to be destroyed by the President; that they should be retained in use, but that they should be confined to industrial-economic development of a civic nature, and second, made eligible for use, Mr. Chairman, only by municipalities experiencing certain levels of economic or physical deterioration.

It might be suggested, for instance, that use of industrial bonds be confined to those cities and urban counties that are eligible for urban action block grants, with the same principles applied to the use of those bonds and the same allowances by IRS.

And second, I believe the Nation needs a set-aside policy to direct defense spending to the Nation's distressed urban areas. This had its beginning under Mr. Carter and the whole concept had his dedicated effort.

Now, if there were a program to target defense spending domestically to areas in Wisconsin such as Milwaukee, Racine, Kenosha, the Fox River Valley and the Green Bay area, it would help to relieve their economic distress and in some measure lessen the burden caused by diversion of our Nation's resources from lunchrooms to war rooms.

And I also believe that there ought to be a national research and development fund aimed at stimulating new private investment and supporting entrepreneurs for new product development in the Nation's urban areas. This, I believe, would allow us to compete with other nations which are striving for No. 1 in the world series of science and technology.

And finally, Mr. Chairman, and I think a most important recommendation, concerns the whole question of business tax incentives.

In rapid succession here locally we have seen the most deplorable, confusing set of statements about the total world of many business tax incentives.

First came Michael Barker, a policy analyst for an arm of the National Governors Association. His central theme was States and local governments are losing hundreds of millions of dollars each year by handing out business tax breaks that haven't altered corporate decisionmaking on new plant investment.

Let me repeat that. State and local governments are losing hundreds of millions of dollars each year by handing out business tax breaks that haven't altered corporate decisionmaking on new plant investment.

In his words, these tax breaks have proven ineffective in creating new jobs or private capital reinvestment.

Now, we have States and cities cannibalizing themselves for new industrial plants, he says.

Next, in contradiction, comes our First Wisconsin Corp., as reported in a Sentinel article on October 1. They note that tax incentives such as M. & E. exemption, which is costing the local communities a bundle in this State, fueled the growth in the State labor force by 30 percent in the seventies, far ahead of the Midwest region as a whole.

It goes on to say that in a recent study, Wisconsin had the lowest State and local tax costs for all the major industrial groups that were analyzed.

Today I read about the Governor's Conference on Business Development. Topic: Wisconsin's aging industries and the 6.9 percent decline in manufacturing employment in the last 2 years. That is a rate of decline more than 2½ times the rate of decline of the Nation as a whole. We lost over 31,000 jobs in about a 2-year period, the article says.

That's in direct contradiction of what the First Wisconsin says, which is in direct contradiction to what Michael Barker was saying.

So we ask the question, and I might add this to your questions, because I think it gravely affects them, particularly in Wisconsin, because the stake in Wisconsin here—this is all related to what happens to our shared taxes and our State aids.

With the phasing out of all the money that we got for stocks for the replenishment of revenues we lost from our tax base, and now with M. & E. fading off so that it's gone from our tax base with no replacement, it becomes a matter of survival for our cities.

So we ask what happens to the so-called stimulating effect on our business tax incentives. Why isn't industry investing in new capital in Wisconsin if this latest thing—the report to the Governor's Conference on Business Development—is correct?

And then I ask this major question, do we honestly know anything about business incentives? I doubt it.

Our Government works hard at these things called locational factors, and they range according to whose study you read or whose you want to apply, from over 100 to about 16 to 17 to 20; and I think frankly that there's been a bundle of propaganda about taxes because it makes it very convenient for people to—for business to get this indirect subsidy, whether it's correct or not.

And certainly we can accept the minimum of 16 locational factors, which was the old guideline of the U.S. Department of Commerce back in the midfifties; and we take taxes and we split off taxes to a thing like M. & E. and say that's a great solution to a problem.

And you can't find very many urban economists who will agree with that. You can take those variables—all the taxes, everything that's in the package that taxes consists of, and it's a large package and it has many variables in it, and take a little damn thing like this and expect much impact. M. &. E. is a great favorite of business, because the tax certainly was a chore for business to pay and be prepared to pay, and they considered it a nuisance.

But to say that that is a great boom—the president of Allen-Bradley was asked about that by Milwaukee Journal after he had promoted M. &. E. to the heavens because they got a tax exemption very nicely themselves; and he just waved it off saying that their big problem is not that kind of thing, but energy; you know?

But it was nice, of course. Don't know of any industries that wouldn't accept it; and, of course, the newspapers were damned glad to get it and promote it to the heavens.

And it's the best kept secret in Wisconsin that a professor from the University of Wisconsin, I'm told by our economic people and our fiscal people, said that the whole thing could be written off, that it had no traceable positive effects upon our industrial development at all. I understand there was a later report which indicated the same thing.

But here we have a mass of printed confusing evidence which simply confirms our ignorance about the field. The question is do we have to jump off a cliff to find out how far it is to the bottom as we've done in Reagan and his supply-side economics.

Anything your committee can do to get some legitimate hardheaded research out of which to clarify some of these issues or to lay down a set of guidelines to help clarify them would be most helpful.

Anyway, these are the areas I believe are worth exploration. But needless to say, these separate actions are no substitute for a comprehensive and coordinated national urban policy, nor a comprehensive and coordinated local urban policy.

But you can't really have a comprehensive and coordinated local urban policy without adequate resources, and it certainly is questionable that Reaganomics will provide an adequate substitute for concentrated urban economic development in our older central cities.

So that is the conclusion of my statement, Mr. Chairman, and I thank you very much.

[The prepared statement of Mayor Maier follows:]

PREPARED STATEMENT OF HON. HENRY W. MAIER

Mr. Chairman, I would like to thank you for this opportunity to comment on the economic future of the City of Milwaukee. Economic development has always been my majority priority. I think our city has a good track record, despite the fact that the track has often been uphill.

In 1962, we pioneered the first urban industrial land bank program, which has attracted 55 companies to our industrial land banks on the north and south sides of the City of Milwaukee. These firms have invested nearly $110 million in plant and equipment, generating 3,100 jobs, and contribute $1.9 million in annual property tax revenue to the City of Milwaukee and the overlapping taxing jurisdictions in this area.

Milwaukee has also used industrial development revenue bonds to provide low-cost long-term financing for manufacturing expansion in the city. In the last eight years, we have assisted 51 companies with a total of $101 million in industrial revenue bonds to generate almost 1,600 new jobs in Milwaukee.

With the assistance of the economic development administration, we have implemented a comprehensive program for the Menomonee Valley—an older industrial area which had declined in recent years.

We have cleared out substantial tracts of land which had literally deteriorated to junkyards. New industrial sites are now being connected by a rebuilt street system. So far, we're one-third of the way to our goal of generating about 600 new jobs by development of the Valley.

To offset the inhibiting effects of high interest rates, our Milwaukee Economic Development Corporation has used both SBA and Urban Development Action Grant programs to provide low-cost incentive financing for manufacturing expansions. We have stimulated $11 million in new plant and equipment investment in the last 3 years, generating hundreds of new jobs for Milwaukee residents through these two Federal programs.

The UDAG program has, as you know, Mr. Chairman, been very productive in the City of Milwaukee. We have received grants for five projects, including the Grand Avenue Retail Mall, and the Trammell Crow Business Center on the northwest side. These projects will leverage an investment from the private sector totalling over $200 million on the City of Milwaukee, and creating 4,000 new jobs.

As you can see, these programs contribute significantly to the economic vitality and tax and employment bases of the City of Milwaukee and the metropolitan area. We believe it is a tragedy that the Federal Government is cutting back in economic aid at a time local economies remain in need.

It is true that the overall labor force in Milwaukee has remained fundamentally stable. While we have followed to some degree the nationwide shift of employment from the manufacturing to the service sector, our manufacturing base continues to provide over 30 percent of our employment, a higher percentage than in the Nation as a whole.

For the last 8 months, however, the unemployment rate in the City of Milwaukee has exceeded the Nation's unemployment rate. We have a rate now of 7.8 percent compared to the U.S. rate of 7.5 percent. Even the rate in the State of Wisconsin is higher than the national rate. This is a situation which has never arisen before. Last month the Labor Department designated us a labor surplus area—a more permanent badge of economic distress.

While Milwaukee has much well-established industry, none of our local companies are included in the listings of the most rapidly growing small firms in the nation. I'm sure this Committee realizes that most of the new jobs will be created by the smaller firms—not today's corporate giants. We need the means to spur this dynamic component in our economy.

Contrary to propaganda, we do have a large number of corporate headquarters in Milwaukee and most are here to stay. But there have been increasing attempts of outside acquisitions of Milwaukee firms. Very few acquisitions have been followed by a program of expanding the local firm. They have not created new jobs.

It is ironic that the most recent flurry of acquisition attempts in the area have coincided precisely with the President's new tax cut program. It would appear that the stimulant being provided to the nation's corporate sector is one of encouraging them to acquire someone else's assets rather than to invest in new plant and equipment and generate new jobs.

And as far as the cities go, we are not better off than we were 10 months ago—the effective date of the business tax breaks in the President's economic program.

Instead of a national urban policy, we now have an anti-urban policy—at least in the White House. Instead of the administration of the Great Society, we now have an administration of the High Society—and our central cities are left begging at the gate. I do not believe that the larger problems of our cities will be attacked until there is a changing of the guard—unless the Congress takes it upon itself to fill this void in our national policies.

In the present context, however, I have these few specific suggestions to make.

Since it appears to be an immediate issue, let's look at industrial development reveue bonds. When you consider both the pluses and minuses of IRB's, it seems to me that an overhaul of their use is in order, not complete elimination as the President is proposing. First, they should be used only for industrial development; and second, made eligible only for use by municipalities experiencing certain levels of economic or physical deterioration. Perhaps, for instance, it would be well to confine the use of industrial bonds to those cities and urban counties eligible for urban development action grants.

Secondly, I believe the nation needs a set-aside policy to direct defense spending to the nations' distressed urban areas. If there were a program to target defense spending domestically to areas in Wisconsin such as Milwaukee, Racine, Kenosha, the Fox River Valley and the Green Bay area, it would help relieve their economic distress and in some measure lessen the burden caused by the diversion of our nation's resources from lunch rooms to war rooms.

I also believe that there should be a national research and development fund aimed at stimulating new private investment and supporting entrepreneurs for new product development in the nation's urban areas. This is, I believe, vital to allowing us to compete with other nations which are striving for number one in the world series of science and technology.

Finally, and I think my most important recommendation, concerns the whole question of business tax incentives.

In rapid succession we've seen the most deplorably confusing set of statements about the total world of many business tax incentives.

First came Michael Barker, a policy analyst for an arm of the National Governor's Association. His central theme: States and local governments are losing hundreds of millions of dollars each year by handing out business tax breaks that haven't altered corporate decisionmaking on new plant investment. In his words, these tax breaks "have proven ineffective in creating new jobs or private capital reinvestment." We have States and cities cannibalizing themselves for new industrial plants, he says.

Next, in contradiction, comes the First Wisconsin Corporation, reported in a Sentinel article on October 1. They note that tax incentives such as the M. & E. exemption (which cost us a bundle), fueled the growth in State labor force by 30 percent in the seventies, far ahead of the Midwest region as a whole. It goes on to say that in a recent study, Wisconsin had the lowest State and local tax costs for all of the major industrial groups that were analyzed.

Today I read about the Governor's Conference on Business Development. The topic: Wisconsin's aging industries and the 6.9 percent decline in manufacturing employment in the last two years. A rate of decline more than two and one-half times the rate of decline of the Nation as a whole. We lost over 31,000 jobs in about a 2-year period, the article says.

What happened to the stimulating effect of our business tax incentives? Why isn't industry investing in new capital?

Do we honestly know anything about business incentives? I doubt it. And the wave of confusing evidence confirms our ignorance.

Do we have to jump off the cliff to find out how far it is to the bottom as we've done with supply-side economics?

Anything your committee can do to get some legitimate hardheaded research underway to clarify these issues would be helpful.

These are a few of the areas I believe are worth exploration, but needless to say, these separate actions are no substitute for a comprehensive and coordinated national urban policy. And it is also questionable that Reaganomics will provide an adequate substitute for concentrated urban economic development in our older central cities.

Representative REUSS. Thank you very much. As I would expect, and as the audience definitely expected, you have laid something on the table for us to consider, and I will say that your testimony and that of the other witnesses will form a compendium which we hope to get out as soon as possible, annotated where needed, so that it can be used as some sort of a beginning guideline.

I think that you presented a measured report looking back over the last generation, and you've been in the mayor's office during that generation. We indeed have made great economic strides forward owing in large measure to your leadership, and if you bragged a little about some of those things, you're justified.

A VOICE FROM AUDIENCE. We love you.

Representative REUSS. You also pointed out the problems that lie ahead and I don't think any of us helps matters by trying to gloss them over. They must be met.

Let me ask you this question on the general subject of mergers, acquisitions, small business. I think we all have to agree that the history of Milwaukee industry has been very largely the history of innovative, hard working, small business, some of which ultimately grew into the Allis-Chalmers and A. O. Smiths of today.

But it is still true that small businesses in Milwaukee as elsewhere are the great job creators, and they're the great productivity innovators.

Would you not agree, Mayor Maier, that one of the tragedies of the current cruelly high interest rates which we have in this country is to make the life of the small businessman, who has to borrow in order to make his investment, a very tough lot indeed? And would you not further agree that one of the reasons that acquisitions are taking place at such an alarming rate is that out-of-State corporations, who by retained earnings or by access to national credit, have what local small businessmen don't have?

Wouldn't you agree that that's one of the reason for this rash of mergers, some of which have a deleterious effect on our economy? In other words, I would lay a considerable part of the blame for the distortions in the economy on the high interest rate structure, and I wonder what your view is.

Mr. MAIER. I think that what you say is certainly true, and it isn't just small. It's medium-sized firms as well: The interest rate thing is stifling every bit of what we call incubator baby initiative. In other words, the small guys that ought to be encouraged to make the big guys.

And our rationale is that we're not going to create any giants any more. Our best potential is to create, set up, and help the small companies.

You might be interested in knowing, Mr. Chairman, that we made an official effort in that direction. We established a Science and Technological Utilization Council, we had a Ford Foundation grant, and

we had the magnificent sum of $35—$35,000, and we were undertaking to get this underway along with an energy study of the same group. The energy study proved itself to be very successful, because we were able to delineate the house-by-house energy needs of this city; and any householder who'd come to city hall could find out what was happening to his house.

That was OK, but then we wanted a complete inventory and analysis of the factors which would determine Milwaukee's ability to maintain existing industry and to attract new industry, and mainly in the developmental areas. The charge was that the particular studies pay attention to the incubator babies, the little guys, who might develop and apply the technologies of the future. We need to know how we could best match our current offerings with the needs of these prospective enterprises—such as in the field of energy—and what new incentives we might have to develop.

Now, the new incentives we have to develop—and this concept fits entirely, almost one for one, with the entire range of your original question. As I interpret those questions, they were designed to say what kind of thinking is going on now, what kind of thinking ought to be projected in the new and prospective developmental areas in the city of Milwaukee, to reconcile with the fact that the industrial empire as we know it may become obsolete in terms of technological requirements of the future.

Now, that the way I read your—I thought most significant questions.

Well, the charge to the committee was designed so that anything they came up with in their findings could be converted into an action plan for attracting new industry and developmental areas.

Now, this committee began with something that you're talking about. You've been talking about the public-private sector partnerships. It had professionals from government. It had the universities. It had professionals from the universities and from industry, and it was in perfect balance.

Well, then, by golly, we no longer got on our way that our National Science grant was taken out from under us.

So then we are confronted with the problem then of how do we staff this, because we have no elbow room. Our staff on economic development has certainly got all it can do, and we lost, Mr. Chairman, two of our top people, who were recruited from economic development, and taken away from us.

We've got a very skillful, learned man now as our acting director, and he's doing a tremendous job, but the fact that they were recruited away was the mark of success.

What we've had to do now is rearrange the priorities there and get ready for this effort. We'll have to staff it with our own economic development resources, and that's a shame because we have an overload.

Now, let me give you an illustration of that overload at the risk of boring you on these local problems, but this is something I know you're interested in.

In terms of Commission Row, we have a planning problem in that area, and we were—we wanted to do something about planning in that area.

Now, who in the hell's thinking about Commission Row in this room? Nobody is, but we've been thinking about it, and we went out to get $30,000. We got a little messed up on the thing because DCD—the department of city development—is overloaded. Our economic planning forces are overloaded.

So we went outside to start to get some money, try to get some money on $30,000 to finance that. That's a one-shot deal, but that's the kind of thing we've been forced to do now, and we've had to cut back our personnel in economic development because the funding is stopped, and now the new budget creates a problem in funding to keep this No. 1 priority going.

But the thing is we have the concept you have. We have the endeavor that you are—know are really supporting, and we have the personnel in place, except that we didn't have the funding and we still don't have the funding. So we're in a squeeze if the leadership has to come from municipal government.

And I must say to you that up till now, that's where it's come from. Except for the great effort of the downtown where the business leaders were magnificent in their help, I think we've had a virtual dearth of leadership. I'm talking about the industrial areas and the economic areas outside of downtown where the initiative and leadership has come from the city government, and I would say to a great extent.

The Menomonee Valley, for instance, when we were rehabilitating that—you knew about it as a Congressman, Henry, because you helped us on the occasions we needed help. You knew we were trying to revitalize it. I don't think that there were three people in the business community that knew it until it was a fete accomplished, until the money was going into the road accesses and so forth.

In speech after speech I would describe the effort, but I had no takers of anyone showing even the slightest interest in the fact that the city government was affording the leadership in that of an area.

I think frankly that—and I don't like to be too critical. I think that we need other examples like the great example; and when we get right down to it, it wasn't a large group of Milwaukee businessmen that did the job downtown. It was a relatively small group compared to the entire industrial executive range that we have in this community. If that executive range could ever be harnessed successfully to put their ingenuity and their resources into this community, Milwaukee could do it like no other community in the entire United States could do it, Mr. Chairman.

Representative Reuss. You're making a tremendous point, and I want to pursue it with you. First of all, you're quite right. I think, in saying that there's been one shining, glowing exception to the general rule of lack of cooperation, and that was the work in redeveloping the downtown, which is now really coming off. The mall will go through. The new Federal office building will go through. The Hyatt Regency is built and operating, and that whole critical mass will stimulate other things.

I think you deserve primary credit for that. I have said that before. I have no hesitation in saying it again. You acted as a catalyst and pooled together labor and business as well as the city government, and you sure pulled in the Federal Government, as I can attest, because you were on the phone with me every day, and the result was glorious.

The Milwaukee Redevelopment Committee, made up of businessmen, put up a lot of money and they retained the services of a crackajack expert to head up their staff, and they worked with your people. The job got done.

Labor was super when financial problems presented themselves in connection with the Federal office building. They dipped into their pension fund and bought the land. That may have been the thing that—one of the things that made the Federal office building, without which so many of these other things wouldn't have happened. It all had to work together.

And business again, the redevelopment committee, not only put up staff and endless personal attention, but they put up large sums of money, too. They, as you know, were there when the private sector seemed to be flagging at a particular time.

That's a marvelous example, and you aren't the only one to call on it. I certainly join in the call, as do others, for using that cooperative government-business-labor-academia experience and applying it to this whole problem of jobs and economic growth.

I think the time has come for that. I think we should now step off from the Milwaukee Redevelopment Committee model for the downtown and apply it to economic growth.

Other witnesses, I'm happy to see, because I've seen their testimony, from various segments of society are going to say the same thing. I commend you for laying it on the table this afternoon; and remember, somebody has to take the lead in this.

The city took the lead in the downtown, and I would hope once again it can take the lead in this. What is the it we're talking about? Well, it's about what you've said, the pooling together of the business community, of labor and city government, the latter admittedly handicapped by the thoughtless cutting off of essential Federal support for its planning activities; but for the period immediately ahead you'll have to do it on your own, and I think you can, and bring in—bring in our great universities. The two leading universities will both be here as witnesses at these hearings—and see if we can't apply the same techniques to our overall economy as we have to the downtown.

If the problem is financing of small business, well, let's get together with our banking and other financial institutions and see how that can be surmounted. If the problem is research and development, and that certainly is part of it, why don't we see if UWM and Marquette can't be the Stanford and MIT of a reborn Milwaukee economy.

So I think you've sketched out a great area, but it now needs formalizing. It needs going ahead, and I can pledge you, Mr. Mayor, that anything I can do to help you in that task, I will very cheerfully do, because we can do nothing finer for the upcoming generation of Milwaukee than to provide them with a growing economy and steady jobs. That's what they need in manufacturing, in services, across the board.

Mr. MAIER. Mr. Chairman, we have more things moving in this community than most people know about.

For instance, very few people know about the record of our Milwaukee Economic Development Corp., which is especially helping small business.

In the inception, for instance, it took some of our model cities money and used it for equity money. Now, of course, there is no more model

cities money of that kind, but they have put together funds from Federal, local, and other sources to keep the thing moving; and the program, believe it or not, despite high interest rates and problems we have, is moving under this economic development corporation, which is set up as a private instrument.

In the past normally it has actually been headed by people from our own division of economic development; but it has had a tremendously successful record.

And one thing, Mr. Chairman. I don't want to take too much of the time any more that you won't allow me, and perhaps less; but I want to point out that we have some very interesting little things happening in this city.

One of the great increases, for instance—percentagewise—is in the field of chemical operations that Milwaukee has significantly increased its chemical industries with such companies as Sigma-Aldrich Corp., the Cerac, Inc., and others.

Then we have things like our friend that you know so well, Marquette Electronics, in the field of electrocardiology; and we have this mysterious little company called Astronautics, which has 1,000 employees and it's located in three older buildings in the South Side and designed to manufacture sophisticated navigational equipment for the Defense Department and the Commerce Department.

The Cerac Co., for instance, is a corporation, a small firm in the Menomonee Valley which formulated the coating for the heat-resistant tiles on the Space Shuttle. Every commercial aircraft flying in the United States today has an Astronautics instrument in it.

As an example of what that firm is doing, the U.S. jets that shot down the Libyan aircraft in the Mideast last month tracked their targets with Astronautics devices, a Milwaukee company.

And we have—I could go on and on with the potentials that we have. We're even progressing the field of computer software, as another example. So we've got the germs and the incubation of a considerable number of things that will be—we think will definitely be involved with the technology of the future.

And I want to thank you, Mr. Chairman.

Representative REUSS. I'm glad you mentioned—and we're approaching the end of your testimony—but I want to come back at you a little.

I'm glad you mentioned high technology because while Milwaukee's genius has tended to lie in the field of heavy manufacturing and high technology has been left to Silicon Valley outside of San Francisco and to Los Angeles and Houston and Boston and those other centers.

Now, something is happening. Those centers of high technology are running out of agreeable places to live. They find that their highly paid engineers and executives can't afford their housing cost. They're finding that blue collar workers are simply unavailable, that they're priced out of the market.

Now, Milwaukee has a priceless asset in that it has grown, but it has not swollen, and it is possible to find places to live in Milwaukee. It's possible to get to work, and it's possible to get the benefit and enjoyment of magnificent Wisconsin hinterland. Those are factors which make me believe that if somebody can put it all together, we can enter

this new high technology field and add that to our conventional machine shop manufacturing, our service industries, and the other things in which we've done very well.

It is true, Mr. Mayor, that in the past the business sector, the industrial sector has not been as effective in cooperating toward economic growth as it has been, let us say, in the glorious downtown experiment that you've just related. Indeed, there were some in Milwaukee industry that really didn't want much more industry in town. It will just bid up the price of labor and they'd like things as they were.

I think—and the testimony that we're going to get at these hearings will bear it out, that this is changing and that industry now in Milwaukee increasingly realizes that if you want to keep a good industrial climate here, there has to be growth and variety.

So I commend you, Mr. Mayor, for your suggestion and I hope you'll go to our friends in the industrial and manufacturing and business community and ask them to make common cause in economic development as they have in downtown development.

I think the time has come, and you have the right idea. There are many more questions I would like to ask you, but I know that you're busy, and I asked you to spend an hour with us, and you' re a little over that already.

I do have one or two specific questions which perhaps you or your staff could answer for the record. Some of them are suggested by the questions I put in my opening statement.

TOURISM

To be honest, I'm not entirely satisfied with the fact that here we have a magnificent public sector to attract tourists, but we don't have the convention business and we don't have the tourist business that we really ought to have.

Perhaps you and your staff could give us the benefit of your analysis of that, and by putting that in the record, we could perhaps set the stage for a new dialog. Equally put your mind on health programs.

It seems to me that our Milwaukee medical people and hospitals have achieved preeminence in a number of areas, but this has not shown up in making us anything like a Rochester, Minn., or a Topeka, Kans. I'm wondering if merely packaging the assets we have here couldn't result in something.

Ask your staff, which has so many good things going, if they could perhaps answer that.

So let me just conclude, Mr. Mayor, with my personal gratitude for your taking the time to prepare that excellent statement in coming here this afternoon.

Mr. MAIER. It's been a pleasure, Mr. Chairman. Thank you.

Representative REUSS. We'll next hear from the State of Wisconsin, Wisconsin secretary of development, Chandler McKelvey. Would you step forward, Mr. McKelvey.

I asked Governor Dreyfus to see that the State is represented at these hearings, and they are—the State is excellently represented in the very live-wire new secretary of the Wisconsin Department of Development, Chandler McKelvey, with whom it's been my pleasure to work in the last few months.

You, too, have prepared an excellent statement, Chandler, which under the rule and without objection will be placed in the record, and would you now proceed in whatever way you like, either by reading it or going beyond it where you feel you wanted to give us the benefit of your thoughts on how can this large portion of the State of Wisconsin; namely, Metropolitan Milwaukee, southeastern Wisconsin, best fulfill its future.

STATEMENT OF CHANDLER L. McKELVEY, SECRETARY, WISCONSIN DEPARTMENT OF DEVELOPMENT

Mr. McKELVEY. All right. Mr. Chairman, what I'd like to do rather than reiterate what's in the prepared statement is to give my reactions to some of the things that the mayor has mentioned.

Represenative REUSS. Surely.

Mr. McKELVEY. And to specifically address the question of mergers, which I think is of great significance to the city.

Incidentally, I would like to express my personal appreciation for the assistance and help that you've given us in your role in our effort to do what we can for Milwaukee and the rest of the State in the strengthening of our economy. You've been very active and very helpful, and we appreciate it very much.

I think in reference to the mayor's comments, there's three or four things that I'd like to comment on. First, there's absolutely no question that Milwaukee historically has done as good a job as any city in this country in terms of innovative and assertive programs to help industrial growth.

I think some of the—some of the more imaginative things that have gone on in this country were started here, or at least Milwaukee was a very early participant.

And so I think that when the mayor brags a little bit, he's bragging very justifiably in terms of the efforts that have been made.

I second his comment on the IRB's—industrial revenue bonds—very much. My department just suggested earlier this week to the legislature a bill that would do essentially what the mayor is talking about. I think there's two areas where IRB's have been subject to criticism in this State, and I think that we can eliminate that criticism without eliminating this very effective tool. The bonds have been extremely effectively used by communities in this State.

Representative REUSS. You might tell us, if you will, what your State position on the role of IRB's is. It's set forth in your statement, but some haven't heard it.

Mr. McKELVEY. Well, communities in this State—the State was late into the industrial revenue game, if you will. We were one of the last States to permit them; but since that date, why, our communities have been one of the heaviest users in the country, and they have been very effectively used. We consistently rank in the top 10 on a per capita basis in terms of use of industrial revenue bonds.

And I think particularly in times like this when you see other Federal programs being eliminated, it's extremely important not to damage this tool that has been proven to be effective.

So we're very interested in maintaining it.

Now, the bill that we have proposed has reform in two areas. First, the question defining manufacturing to be sure that the current law contains quite a broad, loose definition of manufacturing, and we are proposing that that be tightened up, that it be tied to the standard industrial codes, classifications that the Federal Government uses, and that peripheral things such as some farming operations that have qualified under the current language would be eliminated in the future.

As to commercial developments or commercial projects, the ones that have been criticized, and I think legitimately criticized, have been those that have not been associated with a bona fide development or redevelopment effort in the community. Outlying fast food operations, miscellaneous other commercial kinds of projects.

So we have proposed to the legislature that it would be appropriate for commercial—for IRB's to be used for commercial projects only where they are in conjunction with—and this is very similar to what the major suggested—in conjunction with a formal development or redevelopment project such as a UDAG project, tax incremental financing district, that kind of thing. So we agree with him there.

Now, I think the question of the growth potential for Milwaukee as well as the rest of Wisconsin, one of the disturbing signs is the fact that as both you and the mayor observed, we have a very low proportion of our workers in this State employed in industries that would be classified as high potential growth industries, the high technology and other kinds of industries.

As a matter of fact, in this State, we are low not only by national standards, but in relationship to our neighbors such as Illinois and Minnesota, we only have about half the number of employees or the percentage of employees in high technology industries as either of those States; and I think that's very worrisome.

And I think that the kind of proposals that you propound in talking to the mayor are, in fact, very important. We need to find ways to increase the number of our workers that are in the industries that are going to grow in the next 10 or 20 years. I think that's one of the crucial things.

The mayor also mentioned that part of the new economic package at the Federal level could drive industries away or make it easier for industries to flee older cities like Milwaukee, and I think that is, in fact, a danger if we don't have something to encourage existing industries to stay where they are.

And so we—we are very interested in seeing, and we certainly solicit your help in seeing some sort of a tax credit program, perhaps 10-percent tax credits to companies who build near or on the same location as an existing plant; and even an additional 10 percent if that area where that existing plant and the new plant are built is in an area that has a surplus not just of workers but a surplus of skilled workers. I think that's the key, that if it's in an area where there is a surplus, unemployment among skilled workers.

Why, that deserves additional credit to encourage businesses to stay in those areas, and we urge that kind of a program.

We're developing proposals along that line.

Representative REUSS. Just to interrupt you, if I may. That could be Milwaukee right now. This place with the surplus of skilled workers, because our unemployment rate is 7½ percent, and while much of that is lamentably concentrated among minorities, young people, and unskilled people, it also includes skilled people.

Mr. MCKELVEY. Absolutely.

Representative REUSS. And so you're not just talking hypothetically about the sweet by-and-by. You're talking about October 1981 in Milwaukee.

Mr. MCKELVEY. We're talking about this place and this time. I think something like that would be very helpful to Milwaukee, Kenosha, Racine, some of our other cities.

And lastly, before I get into the question of mergers and acquisitions, we agree, and I know the Governor agrees completely, that high interest rates are a terrible problem, is perhaps the root problem of all in terms of the difficulty that we're having with our economy. Whatever needs to be done over a period of time to bring interest rates down to a rational level is, I think, absolutely essential for future economic health, not just of Wisconsin and Milwaukee, but of the country. So we certainly encourage that.

I'd like to talk a little bit about mergers and acquisitions. I think that it's absolutely true that Milwaukee companies now are—seem to be and are, in fact, candidates for a merger more than companies located in many other cities. That's also been true for many years. This is not a brandnew thing that's appeared all of a sudden in Milwaukee.

Milwaukee has had a higher than average merger activity for a long time, but I think it's important that the stagnation that we currently see in our employment in this city can't be blamed in our opinion on that activity, on management's decisions, let's say, made in New York or Houston.

The main reason for the slow growth of our industries here in this city is that Milwaukee-based companies, most of which has been successful over the years, have expanded their operations in places other than Milwaukee and other than Wisconsin, as a matter of fact.

Now, if you take the truly local companies, the ones that are controlled by Milwaukee people, and compare their record in terms of expanding inside and outside of Milwaukee, the record is almost exactly the same as those Milwaukee companies that are controlled by outsiders.

In other words, the companies that are really and truly Milwaukee companies have done their expanding outside of this city and State to exactly the same extent as those Milwaukee companies that are controlled by people in other places.

So so far we have no hard evidence that there's any difference in behavior overall between companies where local people make the business decisions and those companies where the decisions are made elsewhere.

Representative REUSS. If I may intrude again, one could agree with that, and I have absolutely no evidence to the contrary and would not dispute your point, that old-line Milwaukee companies and for-

eign-held Milwaukee companies display about the same propensity to build new plants elsewhere. Let's assume that's true.

It still could be, however, that an old-line Milwaukee company shows more civic spirit, more permanence, furnishes more people who take a great civil interest than in the case of a non-old-line company. Is that not so?

Mr. McKELVEY. I think that's undoubtedly true. I think there is no way that a branch plant manager has the same feeling no matter how civic-minded he is toward his temporary city of residence than an entrepreneur, family business. There's no question about that.

In terms of other civic aspects, it's clearly better if you have a local family-held, entrepreneurial or controlled companies than companies that are part of conglomerates. I don't question that at all.

I think one of the things that we have in Milwaukee that causes this—because it's—it's got to pique your curiosity as to why this is true. Why are Milwaukee companies a victim of—I don't know whether that's the right word, but why are they so susceptible to being acquired by other companies?

And I think you can trace it to our very success. There are not small, weak companies that are acquired. These are successful companies, and in any market or product or company or industry, for that matter, there's a cycle, a life cycle to companies, a startup period and a growth and a maturity and then a decline.

And at that point where maturity turns into decline is the key point in the life of any company or any product or any market. That's the point at which you must regenerate yourself. You must start a new cycle and find a new market or a new product or a new industry; and if you don't do that, why, then you're into a decline.

It's very hard to do it at that point because typically you're in a good position in your industry. You're comfortable. You've got a good record. That's why you're at that point, and you have lots of cash and you're probably undervalued.

Now, it's that last aspect that not only is important if you're going to succeed on into the future to regenerate yourself. You also attract the attention of other people that are looking at that past record of success. See the fact that you do, in fact, have lots of cash. See, in fact, that you are undervalued, and that's what makes you an attractive merger.

I think we have a lot of companies who have had—and we still do in this city—who are at that point—call it successful maturity—where they are, in fact, very attractive. I think that either we are going to keep seeing the wave of mergers continue or we're going to have to see some very difficult and some very far-reaching changes, to imaginatively use some of the resources that the companies have.

So I think there's sort of a natural progression of what's going on. It's not necessarily bad for this city. It comes from success rather than failure.

Now, let me comment just briefly about what I think the State government can do to help create jobs in Milwaukee or the rest of the State.

First thing, I think that we're going to have to do as good a job as we can, that the State is typically the weakest force, the weakest part-

ner in any of these efforts. Market forces, local conditions, the Federal Government almost always play a bigger role.

That doesn't mean that we don't have a role to play and that it can't be important, but I think it's important for us to remember and others that we are not in a position to do it all ourselves. And when we try to do it all ourselves, that's when we have our most spectacular failures.

First, I think one thing we can certainly do is to try to create an overall tax climate that's receptive to business. It's friendly toward business, and I think we've heard here already today that Wisconsin has, in fact, historically over the years done that.

Our overall business taxes, if you take the corporate income tax, the credits against the property taxes, our workers' compensation rates, unemployment compensation, the whole spectrum, this is a very attractive place, not only in comparison to our neighboring States, but to the country as a whole. We rank well below average in the load that we place on the back of our companies here.

And so we don't have anything to be ashamed of at all in that area, and we are not, in fact, making it difficult for companies to succeed in this State. I think there's general understanding and agreement on that.

Now, second area, let us call it special breaks, special gimmicks, if you will, for newer expanded business, things used to lure businesses into the State.

The State in Wisconsin has never done that. That's contrary to our Wisconsin traditions, and we have no such programs in contrast to a number of other States that have a plethora of them.

We have accented, and incidentally in my opinion properly, a basic soundness, a basic hospitality in terms of our overall business climate, rather than special deals, tax forgivenesses, cheap land, and various other things you can have.

I think this is very consistent with our attitude here, but it is true that the competition is getting more and more frantic all the time.

As a matter of fact, we heard just yesterday that there are places in Canada where they are making tax offers, cash incentive offers that actually exceed the total value of the plant being constructed.

Now, when you get into that, you're into tough competition.

I think that—my tendency is to agree with the report that indicated that you very quickly reach a point of diminishing return in those kinds of things. You have to be very careful what kind of incentives you use and you have to be very careful about the cost benefit factors, because you can spend a lot more than you get back.

My department right now is trying to do a cost benefit evaluation of all of the different schemes that you see across the country. I have no idea whether we will propose any of those to the legislature or not or whether they would be receptive if we do; but we're taking a look at them to see if there are any that might make sense for Wisconsin.

A third thing we can do is to reduce bureaucratic requirements and burdens on business, and that's a more major thing than a lot of people realize.

I think that we consider that to be an important part of our operations, and as a matter of fact, we have sort of formal programs

with a number of the other departments in State government that regulate, issue licenses to businesses. I think we are making some solid progress in terms of making sure that those people in those agencies understand that their programs, all of the good things, the social programs and the healthy environment in this state all stem from the ability of people to have jobs and pay those taxes to support the good things that we have in this State.

And I think we're making progress, and I feel good about what we're doing there; but that's a continuing role that I think it's important for us to play.

A fourth thing is the question of communicating the good things about Wisconsin to the people that are not only outside of the State, but many who live here.

There's an old quote from Ruskin about the purpose of science is to substitute facts for impressions, and I think that's very much our job in terms of Wisconsin.

The kind of programs that we have, the good things that are going on here, the kind of things that Mayor Maier mentioned in his talk that many people don't realize are going on. I think communication is a very important aspect.

And fifth, is the question of personal taxes. You cannot separate, as a matter of fact, you kid yourself if you think that you can separate business from the people who make the decisions within those businesses.

And so we—the personal tax, individual taxes in this State are certainly a big impact on business.

Now, Wisconsin is a high-service, high-taxed State. It has been, and let's face it, it will be, because that's the way I think people want it here.

Part of what makes us an incredibly attractive place is the fact that we do have those services, and people in this State are willing to pay for them; and the big money to the State is in individual taxes, taxes on people. Specifically the individual income tax and sales tax bring in by far the bulk of the money, and that's where the money is and that's going to stay high.

Wisconsin is never going to be 40th out of the 50 States in terms of those taxes, but we are no longer No. 1 or No. 2.

I think it's just now becoming clear what's happened with the indexing of the State income tax where we have gone rapidly from 2d place to 7th, and I think we're headed for 45th in another 2 or 3 years. so that money machine for the State is, in fact, turned off.

This is going to be a much more attractive place from the point of view of tax load on individuals; but on the other hand, of course, it's going to be that much less money to spend.

I think that we took a very large psychological step—it was not a large financial step, but a very large psychological step when the capital gains tax was reduced in this last legislative session. Wisconsin was extraordinarily high in terms of capital gains taxes levied on its citizens. We were No. 1, and No. 1 by a lot.

By giving the same kind of deduction that the Federal Government does on capital gains, we've now come down into the pack, and that is no longer a major psychological problem in my opinion.

There's one thing that remains. It's even a smaller financial item, represents only about 1 percent of our total revenues; but again, it is an important psychological problem in terms of people who make business decisions, and that's our inheritance tax. The breaks—it's a graded tax, and the breaks in our tax for the inheritance tax today are exactly the same as they were in 19— I believe it's 1908 when the tax was first passed.

We have not had a lot of keeping up to date on that tax, and what might have made sense then is clearly out of date and it's clearly inappropriate today.

Wisconsin—now that the Federal Government has in essence gotten out of taxing most estates, Wisconsin is now clearly No. 1, including the government, in terms of taxing inheritances. So I think something needs to be done there.

I think that the point that you and the mayor were making about how obvious it is that only by pulling together and really having cooperation can we make real progress is so true that I hesitate to say it again, but it is. It may be a truism, but it is extremely important.

I think that we see right now a determined efforts to cooperate that may have some real hope of finally getting us out of the logjam we're been in for decades in terms of the sewerage system in this city and county. I think that we see city, county, State governments, we see business, labor, almost all elements of this area trying to cooperate, trying to come to grips with a very complex, difficult problem; and I see some real progress being made. I think it's very important to the future of this city, the progress being made in that area, and I'm very encouraged.

So that's basically what I have to say, Mr. Chairman. I would be glad to answer any questions.

[The prepared statement of Mr. McKelvey follows:]

PREPARED STATEMENT OF CHANDLER L. MCKELVEY

Chairman Reuss and members of the committee, my name is Chandler McKelvey; I am Secretary of the Wisconsin Department of Development.

I want to thank the Chairman for his invitation to testify here today. I think that the Chairman has recognized for years the importance of the State in the development of our economies. Views such as this are now coming into vogue—but Chairman Reuss was right all along.

The Chairman has followed through on his views with action. He has provided considerable assistance to the Department of Development. The Department of Development was created by Governor Dreyfus a little over a year ago to strengthen the State role in development. DOD resulted from a merger of the Department of Local Affairs and Development and the Department of Business Development. This merger represented a recognition of the vital partnership of the public and private sectors—of business and governmental cooperation.

I came to government from the private sector. I came because of the opportunities and challenges. The State has an important role to play in the development of Wisconsin's communities and economy.

The key to our success, it seems to me, will be our ability to identify those areas where we—the State—can provide the most effective leadership. Each level of the public and private sectors has special, and different, skills, knowledge and experience to bring to development issues. We should not compete; rather, we should try to help find ways to use our limited development resources to the best advantage.

The key thing is that we all work at it. No one is for development for development's sake. Sound development is the goal of my department. When Governor Dreyfus announced the creation of this department, he declared its mission

to be: "Working with Wisconsin People to Build Better Communities and a Sounder Economy." "Better" and "Sounder" are the key words here.

DOD is concerned with jobs. This means we have to attract and expand business and industry; we have to revitalize our central business districts; we have to assure adequate, decent housing, we have to promote Wisconsin as a place to visit, and we have to help create the "conditions of development."

This last point is essential. DOD is a small agency. To be effective, we must serve as catalysts and as pioneers.

We will do what we can to make sure that other State agencies, our legislature, and the federal government are sensitive to "development opportunities" as they design their policies and programs.

One of the primary vehicles for State participation in creating the conditions of development is the tax code.

Wisconsin recently took a giant step in this direction with reform of the Capital Gains Tax.

Wisconsin's number one rating in level of capital gains taxation has been a detriment to investment and job creation. Our taxation of capital gains as ordinary income had two negative impacts.

First, it discouraged Wisconsin citizens wishing to invest in long-term assets from doing so. Second, it deterred industries which would be attracted to Wisconsin's transportation, social and environment services from locating and/or expanding here.

The legislature's decision last session to, in effect, federalize the capital gains tax, phasing in the 60 percent exclusion on long-term gains over a four-year period will have a very positive effect on the attitude of business decision makers towards Wisconsin. By federalizing capital gains, we have promoted the kind of federal-state cooperation—or, at least, harmony—that I spoke of when I was describing the mission of the Department of Development to create the "conditions of development."

We all recognized the possibility of an immediate, short-term revenue loss from such a reform, and, given our very constrained fiscal situation, we decided that, until the investment induced by the reform produced increased tax revenues, some other revenue sources would be expanded.

Therefore, we enacted several changes in the corporate tax structure and other revenue-raising mechanisms to make up the lost revenue. We, in Wisconsin, are proud of the reform, not only because it will provide the investment incentives required to spur economic growth and, thereby, create more jobs, but also because we were able to accomplish it and still maintain the level of services Wisconsin citizens and businesses have come to expect from their State government.

Let me repeat, in my view, that the main issue is the leveling of the psychological barriers that taxes can create against investment. We certainly hope that these barriers can be overcome, and that, in overcoming them, we can reap a harvest of investment and jobs.

When the State exempted machinery and equipment from the property tax, we saw dramatic results. I believe that psychology was a key factor.

For some time, the growth of manufacturing jobs in Wisconsin—the largest component of our labor force—had lagged far behind the national average. For the decade from 1964 through 1973, manufacturing jobs in Wisconsin grew at a rate of 1.2 percent per year, about 65 percent of the average for the nation during the period. This slow growth was not due to a few "bad years"—in seven of the ten years, Wisconsin's manufacturing job growth was behind the nation's. It was clear that some type of tax incentive was required to promote growth in our manufacturing sector.

In 1974 Wisconsin enacted such an incentive—exemption of manufacturing machinery and equipment from property tax. That enactment not only made it easier for Wisconsin companies to expand and create more jobs; it improved the perceptions of our business climate among entrepreneurs inside and outside the state.

In 1974, with the enactment of the exemption for machinery and equipment, a dramatic reversal occurred. Wisconsin's manufacturing jobs rose 3.2 percent in that year while the U.S. as a whole suffered a 3.6 percent loss—a difference of almost 7 percent. The trend has continued. Our average gain in the years after 1974 has been almost 1½ times the rate for the rest of the country.

Was the tax relief package emphasizing the machinery and equipment exclusion responsible for all of this? In the absence of any reasonable alternative explanation, it must be given the lion's share of the credit.

What would have happened to our employment and state revenues if we had gone on as before—retaining the tax on M & E and growing at a rate .6 percent less than that of the rest of the country? First, we would, of course, have fewer employed workers.

At the end of 1974, there would have been 39,000 fewer manufacturing jobs in Wisconsin, a number which would have grown to 73,000 fewer by 1979. When you incorporate the "multiplier effect" to account for the additional three-tenths of a job each manufacturing job creates in other sectors, total employment in our state would have been 51,000 fewer in 1974, steadily growing to 95,000 fewer by the end of 1979. In other words, Wisconsin was 95,000 jobs better off in 1979 as an identifiable result of the M & E exemption.

That's 4.2 percent of Wisconsin's total number of jobs in 1979. Translated into tax revenues for the state and for local governments, these jobs were worth approximately $110 million in state revenue and $42 million in local revenue in 1979 alone.

These are additional revenues to the State of Wisconsin and local governments which come from the spurt of increased economic activity in our state which started in 1974. This increased activity was not foreshadowed in any way prior to 1974.

In one grand gesture, Wisconsin successfully changed its image from hostility to receptiveness toward business. We, of course, lost the taxes that would have been collected on the exempted machinery and equipment—some $60 million per year. However, the lost revenue was recaptured immediately by other taxes because of increased economic activity, and the total income of the state increased rapidly over what it would have been without the change.

We are not through with this process. We are examining corporate taxes, sales taxes, personal taxes, and the costs of incentives provided by other states. Leveling these psychological barriers to development is an important goal for the State of Wisconsin.

The logic of this is not, as some say, to eliminate all taxes. We're not that naive. Much of what makes Wisconsin an attractive place to live results directly or indirectly from effective State and local government and the high level of services that those governments provide. Reducing taxation has a point of diminishing return. We need to make rational, well-supported judgmests in creating the "conditions for development." That is the strategy of this administration.

Local governments are a basic building block in economic development.

The State is doing its part here, as well. When the State of Wisconsin took over the Community Development Block Grant Small Cities program from the federal government, there was literally no economic development being supported by these federal development dollars. In the first year, we directed toward economic development one-third of the $17 million we allocated. More than 600 jobs were created, and we leveraged over $14 million in private sector money.

I submit that this could happen only with State involvement. We have better data on the needs of our localities and we are more familiar with Wisconsin programs. Only the State has the knowledge and the scope to bring off this kind of resource multiplication. All States are now beginning to follow the Wisconsin model with block grants for local development. They may not have Wisconsin's emphasis on economic development, but I expect all of them will be seeking ways to get more leverage with their community development dollars.

A most pressing issue when looking at local development is the shared revenue question. Declining federal aid to our cities and revenue shortfalls at the state level make this issue very difficult and contentious. A point that is often forgotten is that this is a controversy among partisans of the same cause. The State of Wisconsin is generally the largest single source of local government revenue. The commitment to strong local governments is a part of the basic political consensus in this state.

One of Wisconsin's most important tax reforms over the past decade has been in its shared revenue system. In 1972 we changed the distribution formula from one stressing point of origin to one emphasizing need. The primary objective of the shared revenue reform, of course, was not related directly to development; it was to address a fiscal imbalance that had occurred among municipalities because of wide disparities in tax base and service provision.

In fact, many communities in Wisconsin could not provide the services required for orderly development because they did not have the tax base to do so. A reform

of the shared revenue system was required to address this fiscal imbalance. Unfortunately, however, the tax effort variable in the existing formula encouraged local governments to collect more property tax to meet growing service needs. Wisconsin businesses, already faced with high property taxes, were discouraged from expanding.

This, then, lead to the exemption of manufacturing machinery and equipment from the property tax (and a special "M & E Shared Revenue" appropriation) which I discussed earlier. Certainly this illustrates, as almost nothing else could, the close relationship that must exist between the public and private "conditions for development." Strengthening our cities and strengthening our manufacturing sector had to work in tandem or neither would work. The shared revenue system was putting an indirect strain on business because of its incentive to local units to increase tax effort.

With the 1970's reforms, the "equalized-base" shared revenue program has had a beneficial impact on development as well, because it has helped reduce "tax-base competition." Under the old "point of origin" distribution system, little was done to alleviate the problem of communities competing among themselves for business location.

There was an incentive for each community to lower its tax levy, because businesses naturally would be drawn to localities featuring lower taxes. This reinforced wide disparities in wealth and development around the State—those communities with large tax bases could have low tax rates, the lower tax rates would attract new development, and this new development would, in turn, increase the tax-base of the localities attracting it.

Meanwhile, the low tax-base communities, already burdened with high tax rates to provide evergrowing local services, could not attract new development, This kept many of them in a continual state of stagnation.

The 1972 share revenue reform alleviated much of this problem. By rewarding communities with low tax bases and high tax effort—that is, by using equalized property values and promoting local services—the system breaks the vicious cycle of low-growth experienced by low-tax base communities.

The tax rates in these communities can now become more competitive with those of high property-valued localities. Municipalities with lower tax bases can attract the development that is necessary to create jobs, increase incomes and raise the overall standard of living. There is no longer a state incentive for the high property-valued communities to lower tax rates to attract development—the state aid they receive will decline if they do.

Because we are in Wisconsin's largest city and are talking about local development, it would be appropriate for me to say a word about the multimillion dollar undertaking confronting the Milwaukee Metropolitan Sewerage District. Again, this is an issue of concern to local government and to business. Local government is clearly the responsible party and is clearly concerned that it have the infrastructure—in this case, the sewers—necessary to maintain and expand the community's industrial base.

I served as Governor Dreyfus' principal adviser on this issue. In my mind there are two key points involved in this issue.

They are the same points I made in my report to the Governor last April—they involve the governance and finance of the Milwaukee Metropolitan Sewerage District. As I said last April, "* * * these two issues are not separable, and must be considered together. * * * The joint questions of governance and finance both are urgent and are areas where state government is involved and can be helpful."

On the question of governance, I believe it is essential that a single sewerage commission with proportionate representation be created. Efficiency and effectiveness with a maximum amount of local control are our goals here. Much of what is being considered in the legislature on the question of governance evolved from the task force headed by County Supervisor Ryan. In other words, these proposals originated at the local level.

These proposals call for the establishment of rational, coherent boundaries for the district and for its orderly expansion. On this latter point, I am concerned that we be assured that the so-called "contract communities" will be incorporated into the district at the termination of their current contracts (generally 1984 and 1985) and that those communities have an opportunity to participate in the governance of the system.

There are provisions in current legislation relating to the tax levy which would provide to the contract communities incentives for joining. While I do wonder

whether they will be sufficient, I do not wish my concern to impede action on the bills.

A prime example of how governance and finance can relate can be found in the current situation. The delay in bonding we have just experienced will force an 11+ percent interest rate on the district; with speedy action, a 7.3 percent rate could have been expected. Similar delays (and similar consequences) can be expected if the governance issue is not resolved.

Another point on financing that has received a great deal of attention was my proposal for an optional sales tax. I think the current pressures on the property tax and the reductions in federal aid make this an attractive option. It certainly strengthens our goal of maximum local control.

When you work in state government and are charged with the development responsibilities, it is not only local governments that must concern you. The federal government is in the development business as well. Our capital gains reform and recent changes in our accelerated depreciation tax provisions illustrate the harmony of state and federal action.

We have another reform in mind to advance this sort of cooperation. There has, as you know, been a good deal of concern at the federal level about Industrial Revenue Bonds. Financing massage parlors and McDonald's in some places (not in Wisconsin) has raised serious questions about the way in which IRBs are used. The drain on the federal treasury and the potential for distortion in business competition are also at issue.

Wisconsin was among the last states—the 42nd—to implement IRB financing. Authorizing legislation for industrial revenue bonds was adopted in 1969.

Over the years, industrial revenue bonds have been used for a variety of projects. These projects include manufacturing, storage and distribution facilities for industrial and agricultural products, pollution abatement projects, facilities for health care, docks, wharves, mass transit, recreational facilities, research and development facilities, and commercial facilities in areas where an urban development action grant has been made, on which are located in or adjacent to a blighted area as defined by state law.

The State Department of Development, in conjunction with the Wisconsin Economic Development Association and the League of Municipalities, is sponsoring legislation which will restrict IRB commercial projects to areas which have received a UDAG grant, will be located in a tax incremental district, or will be constructed in accordance with a municipal redevelopment plan or urban renewal plan.

The intention of these restrictions is to promote coordination of federal, state, and local redevelopment tools. In addition, the proposed legislation will restrict eligible manufacturing projects to those defined in the U.S. Standard Industrial Classification manual. We feel that these changes in Wisconsin law will protect the use of IRBs for all bona fide projects, while eliminating abuses which weaken the credibility of this valuable economic development tool.

Statistics gathered through December, 1979 indicate that industrial projects accounted for 75 percent of all projects funded by IRBs in Wisconsin. Pollution control and health care facilities comprised 16 percent of the projects.

Based upon returns from a voluntary survey of new and expanding manufacturing operations, data was obtained on new jobs resulting from IRB-financed capital expansion projects between 1971 and 1979. Not all firms replied to the survey or answered all the questions on new jobs. However, the data collected indicate that they intended to hire a total of 11,154 new employees. It should be noted that this figure represents only jobs in manufacturing and does not include new jobs created by other non-industrial projects. Also known is the number of jobs in other sectors of the economy created as a result of IRB-financed projects. More current figures (through August, 1981) are being compiled and computerized now and should be available shortly.

Under Wisconsin law, cities and villages may sell IRBs. Based on figures gathered through August 31, 1981, a total of 959 IRB issues have been closed with a total value of $1,541,591,293. There are currently 348 municipalities in 66 counties involved in industrial revenue bond projects in Wisconsin.

My message here is that Wisconsin has used the tool well, that we have used it to create jobs and attack blight. In short, IRBs are characterized by the same sort of business-local government partnership that characterizes the Wisconsin strategy for jobs.

This, then, is the State of Wisconsin's role in development. It is a role characterized and motivated by progress.

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Representative REUSS. Well, thank you for a very comprehensive tour of the horizon, Mr. McKelvey, and I think you justly take pride in the general economic climate which our State offers. It has in recent years rectified some things which needed rectification, and now the general task of providing a sensible environment has been not entirely but very largely accomplished.

And so we get to the question, all right, what does the Wisconsin Department of Development do? Obviously it isn't possible or proper for the Wisconsin Department of Development to try to figure out the next wave of red hot businesses; just as soon as you decide it was silicon chips or genetics or home computers——

Mr. MCKELVEY. We guess wrong.

Representative REUSS. You guess wrong, right. So you're quite right. You as much said that, and I want to make this clear, that the Joint Economic Committee does not think that government is a better guesser at what the public will want 5 years from now than the atomized private sector.

However, at the margin, you can have in effect—and would you agree with the following proposition? For better or for worse. I think for worse, but there can be legitimate differences of opinion about that—the Federal Government is now withdrawing from many of its economic development activities. Economic development administration is being very sharply curtailed. UDAG grants are being curtailed. I won't go through the whole list.

I think that means that the States, including our own State of Wisconsin, even given their limited resources, have to do a little more.

Would you agree with that general——

Mr. MCKELVEY. I would agree, and I think it's interesting. I think that I do agree with what you say, and I think that—not only for the States but for the local communities, whether it be a major city like Milwaukee or some of the smaller places—part of that more is not just more money. It's being smarter. It's working with what you have.

One of the bad things about money is that it can substitute for other virtues. I think we are in a position now where everyone, whether it's the State or localities or business, is faced with a question of how do you cope in a tougher world, and ultimately that is to our advantage in a pluralistic society like this, because of the decisions that are made, ultimately you emerge stronger in my opinion. So I don't think this is necessarily a catastrophe.

Representative REUSS. Well, I agree with what you say about money, and indeed the big success story that we've been talking about, Milwaukee's downtown redevelopment and the Milwaukee Redevelopment Committee and so on, it certainly wasn't city money that did all that. All the city did was to use a little funny money, tax increment financing. It was very largely private sector, sparked, of course, by some Federal help; but the main contribution of that whole endeavor was brain power, energy, ginger, putting it all together.

You saw it happen; don't you agree?

Mr. MCKELVEY. There's no question about that, and I think enlarging on that, no matter what you think of this administration's economic program, the Federal administration, it's clearly not going

to work no matter what you think of it unless the private sector takes on functions that it has gotten away from in the recent past and undertakes to do some things much more vigorously than they have been used to doing.

So I think this is very much of a testing period for business.

Representative REUSS. Well, let's just make a little case study of one sector that's been talked about, high technology, and so far the record shows that we're no Silicon Valley. We're no highway 128, but neither are we a disaster. We have our astronautics. We have our up and coming smaller, newer high technology industry.

What can we do about seeing that there is more? I think we can stipulate that you and I would like to see more without taking a thing from conventional manufacturing and conventional services.

Mr. MCKELVEY. That's right, and if you recall, you and I have talked about that in the past in Washington. We're very interested in that, and as a matter of fact, we have actually traveled to Route 128 and Palo Alto to find out what the essential ingredients are of those clusters; and one of the characteristics of high technology, really the state of the art kind of high technology is that it's very tightly clustered geographically, and you find right off the bat that it's no secret that those clusters are around major universities that have the capacity in whatever particular field it is, whether it's engineering of one kind or another or whether it's genetics or microbiology or whatever it might be.

And so a necessary but clearly not sufficient ingredient is the fact that you need a first rate university and an opportunity for people to renew their education and stay up to date on the art.

Another thing that you need is a banking system that is friendly, let's say, to that kind of endeavor. At some point, particularly if it's going to take off and be successful, these firms need a banker that's going to take a chance on them, and it's a little different kind of a chance than you find in many companies in that the potential rewards are higher and perhaps the prospect of failure is greater than in some more conventional fields.

So one characteristic that's present whether it's Boston or the Carolinas or in California is a bank or a group of banks that specialize in this kind of thing and feel comfortable in areas that are perhaps not conventional in terms of conservative banking circles.

The quality of life is an interesting thing, and I think that we in Wisconsin have exactly what is called for there. There's a new company just opening in Madison right now, Cetus, which is a high technology company built around that individual university, and they're recruiting and they are recruiting very successfully in California. Probably more successfully there than anywhere else for exactly the reasons you mentioned. People can't afford to live near Silicon Valley these days, and if you take a Milwaukee or a Madison and you talk about quality of life, why, you've got it.

So I think that we've got the raw materials, and I think it is the same point you were making. What we need is the spark to do it.

I think we can help. We can push and make sure people are thinking about it, and we've had some success; but it is, of course, integrated on the part of a lot of people.

Representative REUSS. Well, I can foresee a very considerable role for you and your department in this.

Let's just take some of the things that you mentioned—the universities. Well, you're a part of the——

Mr. MCKELVEY. Are they giving me a message by taking away these——

Representative REUSS. I hope not. I think they're merely complimenting you on your voice quality.

You are part of a State government which includes one of the country's two or three great university systems. Here we think largely of UW–Madison, UW–Milwaukee. You are in position to, it seems to me, to sit down with those universities and with others like Marquette and see whether there may not be an inchoate Stanford or MIT among them. They've done pretty good. They could do more. You're quite right historically. That's what started Cambridge and Palo Alto respectively.

Mr. MCKELVEY. And it's a thing that has been very interesting to me is that I've gotten more involved in it is that it's not individuals. It's individuals and universities.

Frequently a whole industry or a whole cluster of companies will be built around a particular member of the faculty at a particular university.

So you look at a Marquette and you say well, do they have a massive engineering program to rival an MIT, and the answer is no, but I'm sure there are people at that school that are fully qualified to generate that kind of activity.

Representative REUSS. So there's a possible catalyst role for you and your department to play with the universities.

Mr. MCKELVEY. Right.

Representative REUSS. Let's now turn to the next thing. You mentioned the banking system. We don't have any genies around here, unfortunately, you know, with the Bank of America. They grubstaked the California winegrowers who couldn't get loans elsewhere, and moviemakers; but we do have a vigorous banking system.

I, to be quite honest with you, don't know whether Wisconsin financial institutions are really meeting the needs of new industry. I hear complaints sometimes from disappointed seekers after credit that they aren't, and it's very hard for an outsider like me to know whether the turn down was justified or not.

Do you have an impression or opinion?

Mr. MCKELVEY. I honestly don't know either. I think that our banking traditions are conservative in this State. I think that's probably clear.

I think it's probably also clear that if an individual firm knew all there was to know about the various options that he has in terms of banks in this State, you could find banks that would be interested in unusual kinds of things.

Incidentally, banking money, cash needs, money is a more serious problem than venture capital. Venture capital goes where the action is, and if the action starts here, we will have no problem with finding venture capital. So it's merely a banking—more of a local need than it is venture capital.

Representative REUSS. Well, there again, I don't think it would be in any way improper for you to play in conjunction with everybody else a catalyst role. Would you agree?

Mr. MCKELVEY. Yes, and incidentally, I think that's the role we feel most comfortable in generally with this area, trying to produce, trying to bring people together, trying to make sure that what we think are the right questions to be thinking about are, in fact, being thought about.

So I couldn't agree more.

Representative REUSS. There is one thing. I say this as former chairman of the House Banking Committee. There is one thing that the State could do about banking. I think it's still true that no matter how much a given area or neighborhood, industrial, residential, commercial, whatever it is, which is not served by a bank needs a bank, if an existing bank wants to branch in an area, unless it satisfies the very, very rigid requirements of the banking laws, an existing bank cannot establish a branch there. That has been true. It still is.

I think it's absolutely untenable, serves no purpose whatever, doesn't protect other banks against competition, because by definition, they're not in there.

So I would commend to you that you look around at the existing banking laws and see if there aren't some obvious anachronisms that ought to be wiped off the statute book; wiping them off won't solve everything, but it would help.

You then spoke of the quality of life, and that certainly is important, and it's very interesting. Your little case study of the new high tech company that's starting up in Madison, and you tell me in effect that it's hiring scientists and top level people who found that in Silicon Valley there were just too many people in the hot tub. They want a little more space and they're able to find it there. They're able to buy a home. They're able to get to work, and since you've been in Silicon Valley, you know that blue collar workers are unobtainable. They live 40 miles away in San Jose, and it's an impossible commute for them.

Mr. MCKELVEY. There's no public transportation. There's a recent housing survey, cost of housing. I don't know whether you had the opportunity to see it or not. Indicates that a house that costs from $70 to $80,000, in both Madison and Milwaukee, costs $325,000 in Palo Alto, and that is a significant factor.

Representative REUSS. So the Sun Belt having raided us, I don't see why we cannot in whatever advertising programs we may have, make this obvious point, that it really is much pleasanter to live in a relatively unhassled atmosphere.

Mr. MCKELVEY. That's right.

Representative REUSS. On quality of life, because that is something that appeals to corporate managers who are wanting to locate, you have included government. I think that's very important, and particularly in your prepared remarks, in discussing the problems of the Milwaukee Metropolitan Sewage District, you carry on at some length about the need for a more sensible metropolitan form of government than what we now have. I can't agree with you more.

It wouldn't bother me, incidentally, if the State took that over, but——

Mr. McKELVEY. It might bother me.

Representative REUSS. It might bother you, but since nobody is doing it now and since the State is the one political entity which has jurisdiction over the entire watershed, I would much sooner have the State take it over than continue as at present.

However, you've embarked upon a compromise which at least tries to match geography and resources, and that is a big improvement. I would think you bring that into your testimony, because people who want to locate here look at the kind of governmental institutions that we have; and if there is a sewerage unit which is grotesquely unequipped to do the $1 billion job that it's going to have to do, they are going to feel better about it if we seem to be doing something of a corrective nature.

Wouldn't you say that's why you brought it up?

Mr. McKELVEY. Right; and I do think that we're seeing real progress, and I have high hopes that that will be solved very soon, that question.

Representative REUSS. Let me bring up another hot potato which knowing you've never hesitated to grab if it's handed you.

Here in Milwaukee we have a problem of race relations and the police force, as anybody who reads the papers can tell. A recent survey which was reported in the papers which was taken I believe before the incident which is now the subject of a court inquiry, a recent survey showed that a large majority of our black population, when polled, believes that the leadership in the police department is not contributing to good relations between the races, let's put it that way.

Part of the problem may be due to State law. It is State law as you probably know which says that no matter what the Milwaukee mayor or the Milwaukee Police and Fire Commission may think, once they've got a police chief, they've got it for life. I don't know any other place in the world that has that.

Mr. McKELVEY. And I wasn't aware of that provision.

Representative REUSS. It does exist. Isn't that another case where the State of Wisconsin might want to ventilate its statute book a little bit to at least give the local authorities the opportunity to decide every year who is the best qualified person to head up this vital service?

Mr. McKELVEY. I wasn't aware of that.

Representative REUSS. Well, now that you are, don't you think that may be another case where the State can contribute and enable a community to present a better climate, a more peaceful climate, one that would induce corporate managers which are considering Madison, Palo Alto, Fort Worth, and Buffalo, N.Y. Might that not be a factor which they would take into account, its quality of life?

Mr. McKELVEY. I would agree with that.

Representative REUSS. You spoke of communications, and you work for a man who's a master at it. What is the communications program of our State on economic development?

I'm sure we try to get favorable articles in the media whenever we can. Is there an advertising budget?

Mr. McKELVEY. Yes; there is. There's really three major formal elements in addition to all of the informal things we try to do; but the formal program, there is an advertising budget and that's divided between tourism and economic development.

There's a public relations kind of budget, which is used for, oh, publications and that kind of things; and then there is—we have a small group of industrial development specialists who—in my department who are really I call salesmen for the State. They are responsible for doing what they can to make sure that prospective employers know about the good things about Wisconsin. They help them in terms of looking for an appropriate place to locate or expand.

And so we have those three formal programs. I'm not sure whether those formal programs constitute a majority of what we try to do, because so much is trying to influence people who influence other people about Wisconsin.

Representative REUSS. To the extent that you do have an advertising program for economic development, and you tell us that you do, are they making this point we were just discussing about the fact that Silicon Valley may have all the—the seed corn for high technology, but the landscape there is so throttled by overdevelopment that a newcomer to the scene like Wisconsin may have things to offer that they don't have?

Mr. MCKELVEY. Absolutely. That's one of our real thrusts; yes.

Representative REUSS. Finally, I asked the mayor to comment on tourism in Milwaukee, or asked somebody on his staff to get for the record a better answer frankly than I have in my head now.

I have a feeling that Milwaukee does not have the hotel business, the convention business, and the tourist business that it deserves in terms of its availability, in terms of its public establishments, the art galleries, the art center, the museum, the sports stadia, and arenas, the Mecca and auditorium, and the public buildings.

It seems to me that we ought to be much more a regional convention center, something just short of the American Legion, the American Bankers Association national conventions, than we are.

Do you have a comment or two on that?

Mr. MCKELVEY. I agree with what you're saying, that the variety and the outstanding nature, and I guess outstanding is the word you have, to use of the public attractions in the city, warrant perhaps a lot more attention than they're getting.

But I think you're going to be surprised when the city gives you the figures you ask for in terms of how much tourism there is in this city. Tourism is a major industry and a major supplier of jobs to Milwaukee, and I think we have some statistics, which I'll be glad to forward to you, in my department that indicate that tourism is a very large, surprisingly large industry in Milwaukee.

We're talking about people who spend money here, who come from more than a hundred miles away is the index that we use, and it's a very substantial amount.

Representative REUSS. Yes. You talk, however, to our hotelkeepers and they're not suphoric. Their vacancy rate is higher than they'd like, and I don't know the answer. I suspect the answer may be that we don't have enough first-class hotels to attract major conventions. and so it's sort of a self-defeating and descending spiral, but I don't know that.

Mr. MCKELVEY. I think that Milwaukee has never been a regional city to the extent that it might have been. Perhaps it's hemmed in by

Chicago and the Twin Cities or something. I don't know what it's been, but think there's a lot that could be done. I agree with you

Representative REUSS. And finally, I'd like to ask you specifically about the proposal that was passed back and forth when the mayor was on the witness stand a little while ago. Namely, that metropolitan Milwaukee would do well to take a lead from its very successful experience in government-business-labor cooperation in the case of downtown and change and adapt that cooperative idea adding academia to the provision of more jobs and more economic opportunity in the future.

We have not institutionalized that as we did the downtown, and the mayor and I both seem to share the thought that institutionalizing it might be an idea whose time has come.

What do you think?

Mr. MCKELVEY. I think that the conditions for this are much better now than they probably ever have been in the past. I think more people realize that it makes sense now than might have been 10 or 20 years ago.

But I think there's one thing that's important to keep in mind on that kind of thing, and that is that it works much better if it's geared to a specific objective, a specific identifiable project like the downtown over a limited period of time where people get together and pull toward an identifiable goal.

If it's just something—if it's like trying to create more jobs, then it's much more difficult to hold the interest and enthusiasm, and the chances of success are much less.

So as they move forward on that, and as I say, I certainly hope they do, the important thing is to have perhaps a series of specific projects and objectives that people can get enthused about.

Representative REUSS. Well, couldn't you subdivide? Couldn't you set your eye on one particular aspect of economic development such as more university participation in research and development?

Mr. MCKELVEY. That's exactly the kind of thing you can do.

Representative REUSS. That is something quite tangible, not quite brick and mortar, but the next thing to it.

Mr. MCKELVEY. I agree with that.

Representative REUSS. Well, you've been as I expected a most valuable and delightful witness. Thank you very much.

Mr. MCKELVEY. Thank you.

Representative REUSS. Give my regards to the chief executive.

We will now hear from the witnesses from Marquette University. Father Biever, accompanied by Jim Sankovitz, vice president for governmental relations, George Reedy, Nieman professor in the college of journalism, and Raymond Kipp, dean of the college of engineering.

Father Biever, we're most honored to have you and your team with you. Please give my best regards to Father Raynor and tell him how much we appreciate his cooperation in making you all available to be with us; and you've a fine prepared statement, which under the rule is received into the record.

And would you now proceed in whatever way you like. As I understand it, your associates from various disciplines don't have prepared statements, but will respond to questions.

STATEMENT OF FATHER BRUCE F. BIEVER, SOCIETY OF JESUS, VICE PRESIDENT FOR UNIVERSITY RELATIONS, MARQUETTE UNIVERSITY, ACCOMPANIED BY JAMES L. SANKOVITZ, VICE PRESIDENT FOR GOVERNMENTAL RELATIONS; RAYMOND J. KIPP, DEAN, COLLEGE OF ENGINEERING; AND GEORGE E. REEDY, NIEMAN PROFESSOR, COLLEGE OF JOURNALISM

Father BIEVER. With your leave, Mr. Chairman, I'd like to read my comments and then we would be ready to open up with questions.

Mr. Chairman, distinguished members of the congressional Joint Economic Committee, other Members of Congress, and ladies and gentlemen.

My name is Father Bruce F. Biever, of the Society of Jesus, vice president for university relations at Marquette University. I wish to introduce my Marquette colleagues at this time. They are Mr. James L. Sankovitz, vice president for governmental relations; Mr. Raymond J. Kipp, dean of the college of engineering; and Mr. George E. Reedy, Nieman professor in the college of journalism.

My colleagues and I are very grateful to have this opportunity to appear before this distinguished joint committee concerning a matter which is of utmost concern to the entire academic community at Marquette University.

Previous speakers have commented on the economic implications of the question which has been the stimulus for these hearings.

As a representative of an independent institution of higher learning, I wish to speak, rather, about the complex network needs of an urban university as it seeks to serve its community and the dependence of such a university on the expertise, talent, energy, interest, and resources of that community. Basically, I wish to speak about the impact of the question before us with regard to people—within the university and within the community—who are critical to the educational enterprise.

Marquette University is an independent, Jesuit, Catholic university. Enrolled at it this year are some 12,000 credit students, or approximately 45 percent of all credit students enrolled at independent institutions in the entire State of Wisconsin.

Throughout its 100-year history, the university community has been keenly aware of the necessity to interact creatively with the leadership of the Milwaukee community in order that the university might flourish and that the community be better served by the resources which such an institution can bring to the community.

One such example of this creative interaction is the Marquette University Board of Trustees, the ultimate governing board which controls the policies and directions of this university. Our board of trustees is made up of men and women, a majority of whom are community leaders in the city of Milwaukee. Their contribution to the university cannot be overstated. These people are extensions of the university, reaching into the corporate, social, and family networks of the metropolitan area.

We are an urban university; we are proud of that title and that reality. We are in the community; we serve the community; we de-

pend on that community for support and counsel. It is a natural partnership.

Further examples of the importance of this partnership would be, for us at Marquette University, the reality of the Business Administration Advisory Council, the Advisory Council for the College of Engineering, and the President's Executive Senate, all of which are groups tapping the community leadership of Milwaukee in order to assist the university with advice, review of planned growth and development, as well as more directly utilizing influence to gain friends and material support for the university.

By the same token, they serve as linkages connecting the expertise of Marquette personnel to the needs of the community.

When economic conditions change and corporations are bought and sold, when headquarters are moved and key personnel are transferred, this natural affinity, this partnership of such critical importance to Marquette University and to the city of Milwaukee is disrupted.

Decisions for support, both human and financial, inevitably tend to be made elsewhere. The simple truth is, that when a firm is wrenched from Milwaukee, its leadership is often wrenched away as well, and Marquette University and the community are the poorer for this occurrence.

What can we do about it? It is quite obvious we cannot, nor should we, object or seek to counter the ebb and flow of the business market, which, just like education, regularly and routinely sees people come and go as they improve their skills, and accept more social, business, family, and community responsibility.

However, I believe firmly that we must encourage industry to redouble its efforts in recognizing all employees and all associates have a responsibility to become involved in community efforts. This should be done at an early period in their careers, and not seen as simply the prerogative or the responsibility of middle or upper management.

People must be explicitly encouraged to share their talents with the huge number of voluntary enterprises, including education, that are so critically dependent upon voluntary service for survival and growth.

Do changing conditions of the local economy contain any messages for educational institutions? Obviously, yes. If the economy is poor, some students—the workforce of tomorrow—may decide to enroll somewhere solely on the college's affordability, rather than on whether that institution offers the specific kind of education the student desires. Indeed, some talented students may not be able to attend college at all, and that is a sad loss.

But, beyond that, institutions with career-oriented curricula have the obligation to keep their courses, lectures, and libraries up to date. They must do so because of the overarching responsibility constantly to make available to students the quality, contemporary educational experience that is expected from them, as their catalogs and bulletins proclaim.

In that connection, Marquette offers many career-oriented studies. The professional schools of dentistry and law are certain examples, but so, too, are engineering, business administration, journalism, the health-related programs, and many others.

We will never abandon our fundamental, core curriculum of a liberal education—the education background we believe critical in preparing students for the human value decisions one can expect to make during a lifetime. But we also see much merit in continuing to perfect the blend of these two components—the liberal education with career preparation—as we strive toward educating the whole person.

It is the composite of the educational product that holds out the most hope for talented, reasonable, faithful decisionmaking when the pressure of adverse economic times becomes most threatening.

What else might we do? Surely no one in this room need be reminded that social programs, if they are to survive, will become much more dependent upon voluntary service and support in the future. The Congress has told us that we must learn to get along with fewer Government dollars and, as an inevitable consequence, we in the private sector are going to have to raise more friends and more money to continue our growth.

The Congress has given us one tool in the next Tax Act; the extension of the charitable contribution deduction to nonitemizing income tax filers will, hopefully, be of great benefit to all of us. Both Congressman Reuss and Congressman Zablocki were instrumental in obtaining that incentive.

However, you might also take two further steps.

One, do not allow that incentive to pass out of existence in 1986, as it might if no congressional followup activity is undertaken.

Two, insulate charitable contributions by removing them from the so-called tax expenditure list. Such an action would do much to make planned giving certain, to assure our interested friends that their voluntary act of dispossession of goods or money will, indeed, be delivered whole to the program or institution of their choice. Such an activity will help the enterprises that grew up and flourished in response to the community's desires and needs.

As a representative of an independent university, I am keenly aware each day of the mutual dependence of Marquette University upon the local community and the great opportunity which the university has as an academic enterprise to be of services to that community in turn.

It is a complex and delicate interrelationship. We would hope that even as mergers in the corporate sector continue, steps might be taken both on the side of the university and on the side of the corporate sector to protect the volunteerism which is so endemic to American society and so critical to independent institutions. Such shared effort and energy simply must not be compromised nor diminished.

Thank you. I would be more than happy for you to entertain any questions either for me or for my Marquette University colleagues.

Representative Reuss. Thank you, Father Biever, both for your excellent testimony and for your many years of devoted service to the community.

We forget, of course, that in these hearings which concern themselves very much with the private sector and the service industries in the provision of jobs, that it just happens that Marquette University is private sector. It provides several thousands of jobs and has at least 12,000 customers, and what would we do without you.

But putting it in those materialistic terms doesn't begin to express the debt that we all feel to Marquette here in the community.

I heard what you said about the charitable exemption, and I agree with you. I supported it, not as a temporary measure, but because it is necessary in the long run. If we have a pluralistic society, we must make it possible for people of simple means to, if they want to, to make a contribution to a private educational institution; and Marquette is going to need that support in the days to come; and I'm going to do my best to see that that temporary provision is made permanent.

It was never intended to be a temporary one, as I'm glad to say some of the other provisions of the Revenue Act of 1981 are.

I have a number of questions, and I think I'll put some of them to your distinguished group of colleagues here.

Dean Kipp, there's much discussion earlier this afternoon about the great high technology breakthroughs in Silicon Valley and in Highway 128 around Boston. The role of Stanford and MIT, both incidentally private universities, in that rebirth of high tech was noted.

I know that Marquette and particularly the school of engineering, does and has for many years had a very fine working relationship with Milwaukee industry, large and small, and has played a not insignificant role in research and development.

But my question is a pedagogical one. Can we do better? Is there in the future an ever firmer role for Marquette, one of our two great universities in this city, to work with private sector industry in churning and channeling research to be placed through that industry at the service of the community? Tell us what you're doing and whether——

Mr. KIPP. Well, I think the possibilities are much greater than what they have been in the past. I think that's probably the case because of both parties.

I think for a time that applied research, and much research falls into the applied area rather than pure science, was avoided by universities in dealing with industry because of some problems that existed—patent rights, copyrights, and so forth.

I think today both parties need each other very strongly. I have about 2,000 of those 12,000 students in my college today, so we have a great demand for engineering. We still have a demand for engineering across the country, probably not as great locally, but in other parts of the country.

We need to work with industry. It's one source of support for our research, and we're seeing much more cooperation and effort on that.

Some of the companies that you would recognize—Rexnord, Allen-Bradley, Cutler-Hammer, McGraw-Edison—recently we've been meeting with people at Allis-Chalmers where we're trying to use the resources that some of our faculty bring in their expertise into the community when we employ them here as faculty members to help the industry in some of the problems that they have.

Some of this is in high technology. I would say our high technology in this area is perhaps more related to the manufacturer. We get into the very expensive equipment needs in the computer field. We need computer-aided design materials, computers that can portray graphically a solution to the problems: and then we're getting into the computer-aided manufacturing; and these two areas, the cad and cam, are high technology.

In the Milwaukee area, where we see more production, more manufacturing, that's the kind of high technology that we can assist them

in. I don't think we have the Silicon Valley type of industry here, as MIT and Stanford developed those. I don't think we need to do that. I think there are a lot of other problems that our local industries have that we can help in.

Representative REUSS. But I surely agree with you that if we now decided that we were going to ape Silicon Valley about the time we came on stream with the splendid semiconductor industry, the world would be into something else and we'd be left with a redundant industry.

I'm delighted to hear what you said about the past and the future of Marquette's participation in technological research and development.

Do you need any help from anybody—Government, business?

Mr. KIPP. I think our biggest needs today are in the people where we have—I think you're aware of the difficulty that engineering colleagues are having in obtaining faculty, and the primary reason for that, of course, is the success of our undergraduate students as they go out and they are attracted to starting salaries in the $24,000, $25,000 ranges. This is with a bachelor's degree in engineering, and, of course, that's too attractive for them to continue in graduate school.

We simply have to have some support. I think fellowships are the way to go, either fellowships where they go into teaching after the completion of their terminal degree, or something like the Ford Foundation procedure of 15 years ago in which a young faculty member's fellowship was written off in 3 or 5 years at so much per year.

After 3 or 5 years on a university faculty he may enjoy it and he may stay with us, and many of them did. Those types of fellowships have a relatively high price to them, but I think we have a possibility of getting some young people in the profession of teaching again.

The other area is in the equipment area, as I'm sure you're aware, computer equipment. It changes so fast. Five years is perhaps the life of most of this equipment; with new developments, it becomes very expensive to stay up-to-date.

Now NSF has helped us to some extent, but I think we need more support in the way of equipment. We simply aren't going to get it out of our tuition dollars. It's just too expensive for that. I don't think the public institutions are going to get it out of their appropriated dollars from legislatures, either.

So we have to look to something, either industry—and industry is beginning to support us to some extent. NSF is another solution. But those are the two areas that we have real problems with: Faculty and equipment.

Representative REUSS. Obviously, you use all the resources from Marquette that the administration can give you, and what I gather you're saying is the cupboard is bare to do these things. You need help from something like to National Science Foundation.

Mr. KIPP. I think the fellowship program, too, should be expanded and——

Representative REUSS. Unfortunately, as you know, we're contracting that support instead of expanding. Has that been felt yet by you?

Mr. KIPP. It's being felt because we just can't simply offer the young man something that would keep him into the graduate program now. The fellowship program is not much more than a TA that we can

offer him; and it's very difficult for a young man to look at a $25,000 starting salary and come to the university and look at a package which guarantees his tuition and fees and then gives him maybe $500 a month to live on. That's hard for them to accept, and they have to be awfully dedicated to go into graduate work these days.

And as you're probably aware, we have a shrinking number of graduate students in engineering, and of the ones that are in the graduate program, about half of them are international students, and many of these, of course, are going back to their own country to help out there and they're not available to us.

The people problem is the greatest, but then we have the equipment problem.

Representative REUSS. You might be interested to know, Dean Kipp, that this committee—the Joint Economic Committee—fought a valiant but, I'm sorry to say, unsuccessful battle to save the National Science Foundation from the kind of meat ax cuts that we're talking about. Just a few million dollars were involved, and we felt that those scientific grants both for equipment and for manpower were important—that it would be a false economy to cut them down; but they were cut down. We'll continue to do what we can to see that they are restored, but the short-term outlook is not good.

Mr. KIPP. I think you're going to hear about this crisis in engineering education during the next year and succeeding years, because this is not a problem that's going to be solved overnight. There are just no young people coming out of our engineering Ph. D. programs.

We've had some success in hiring people from the industrial sector. We've hired a young man—not young really, but he's had about 20 years of industrial experience, and he saw fit to come back to the university to join us on the faculty.

We may have to do more of this, but we still need the young blood that's going to come in to replace our existing faculty, because that's where your high technology, where your research, is going to come from. Unless we have that, it will soon affect the quality of our products. The engineer going out to the marketplace is going to be affected, and that quality will be felt by industry, by the Government, by the military, by every sector, because we're living in a technological world today, whether we like it or not.

Representative REUSS. Well, you've given us a warning, and I hope it will be heeded.

Let me now turn to George Reedy, a man who has been observing Government for more years than I can remember.

Mr. REEDY. Or I care to count, Mr. Chairman.

Representative REUSS. Thank you for being here, George. Would you agree with the thought that has been expressed that in matters of corporate location, corporate managers look at a whole variety of factors, and that included in the factors which they look are the matters of local government, such as whether a given community makes a tolerable settlement of the problems of metropolitan government.

That's one of the reasons for Minneapolis' success, and it has been admirable; it has been because they have, to a degree, solved the problem of metropolitan government, or at least avoided the total fiscal Balkanization of the suburbs and central city.

Or take Baltimore, another city which has a very large black population but has a great record in race relations. That, I'm sure, plays some part in the fact that Baltimore keeps getting new industries and has so far successfully fought off the fact that it is an old, Cold Belt city.

What have you to tell us in general about the effect of local government as a determinant of corporate location decisions?

Mr. REEDY. There's no question about that, Mr. Chairman, and I can speak from some experience, not only in journalism and in Government, but from some experience in private industry.

I think one of the best examples, one of the most dramatic examples rather, of what can happen is New York City itself, which a few years ago was confronted with the problem of industry literally fleeing the city, primarily because the New York administration had not succeeded in reconciling the various elements within the community.

You may recall there were some very major blows to New York City in that some very large corporations such as General Foods and quite a few others were deliberately seeking headquarters outside of the major city itself. That was due primarily to the fact that the city government was not providing the kind of an environment in which an industry can flourish.

One of the things that Mr. Koch is most proud of now—I'm not sure whether he has succeeded or not because I have not been in New York City—but at least he has convinced quite a few people that he has succeeded in reversing the conditions that led to the flight of industry.

When an industry locates in a city, it has a number of considerations that it must take into account. One, are the relationships within the city harmonious? Two, is there an adequate educational structure to serve industries, because industry in the modern world is leaning much more upon higher education than it used to.

I can cite journalism, for instance. When I first became a newspaperman, very, very few people, including myself, really had an education in journalism. In those days most newspapers had an apprenticeship system, and they would take liberal arts graduates who would really get their journalism education on a newspaper.

Today that no longer exists. Newspapers do not have the kind of system that I once served time on. They look to higher education to do the kind of training for them that industry once did. And so this is another factor that has to be taken into account.

Another factor that is obviously taken into account is the industries' assessment of stability of a city and of the local area. Those have become terribly important considerations.

Representative REUSS. Thank you very much for an excellent answer.

Jim Sankovitz, I have been seeing you over the years over many brick and mortar matters affecting Marquette, and you along with your colleagues here today have had a lot to do with the physical development of Marquette in which we all take a great deal of pride.

In the course of doing that, Marquette has shown in my observation a good deal of ingenuity not only in raising money for new buildings, but in what is called adaptive reuse. You've taken old dormitories, ancient insurance companies, and all kinds of things, and recycled them into buildings, and so forth.

Senator Proxmire, you're very welcome indeed. Senator Proxmire was instrumental in helping us set up these hearings, and unfortunately, as is his wont, he is overbooked, but I'm delighted that you've stopped by.

Senator PROXMIRE. Thank you, Chairman Reuss. I'm very happy to be here.

Representative REUSS. We've had good testimony from the mayor, from the Governor's office, and now we're listening to our friends from Marquette tell us how we can insure a good economic future for Milwaukee. I was just asking Mr. Sankovitz about his experiences as someone who's concerned with the physical development of Marquette in recent years, and particularly with the adaptive reuse of old buildings. You've done a lot in the past. I think you're going to do some more in the future.

I raise the question of adaptive reuse of old buildings because we of the Cold Belt are rich in old buildings. We've got a lot of them that were built 100 years ago, 80 years ago, 60 years ago, 40 years ago, and that's one big difference between us and the Sun Belt, which is much newer.

Congress did a lot of foolish things this year, but one of the wise things I think that it did was in the tax bill. It gave very strong incentives to businesses that rehabilitate old buildings. Specifically, large scale investment tax credits are made available to those who remodel and modernize a building that is more than 30 years old. If it is more than 40 years old the credit goes up, and if it's a historic building it's even—perhaps I shouldn't have mentioned that—it's even more, and then there are very liberal depreciation.

This doesn't directly affect Marquette, but it certainly does in terms of Marquette's wish to live in a thriving community that keeps pulling itself upward.

What have you to tell us about the economy and efficiency of trying to recycle old buildings?

Mr. SANKOVITZ. I was afraid there, Mr. Chairman, you were setting me up for the one example that was more prominent in recent history as to history of others in recycling old structures.

Let me respond to that by saying that I think it's very symbolic of the university to have at this hearing a chief spokesman—a man of the Society of Jesus who has taken a vow of poverty—talking about the economy of the city. I think therein we can step back and take a look at it from a different perspective.

I think that there is a bad rap on Milwaukee, and some of us walk around with our heads down saying that oh, we're in the Sun Belt. Things are going very poorly for us, and forget some of the things that have led Milwaukee to enjoy some superiority.

One example: In recycling old buildings and in recycling the downtown and structures around it, many people forget the extensive steamlines under this city, where foresight many, many years ago led to an energy delivery system that is now paying off handsomely. I think people forget it, and they should not.

In the several months ahead of us——

Representative REUSS. The new word is cogeneration, and we've been doing it for 80 years.

Mr. SANKOVITZ. Harvard saw the problem with cogeneration and has, what is it, $300 million into that plant in Boston, plus many problems in the last couple of years.

We were at a cutting edge there, and I don't think that we should stand back and be rapped as saying, golly, we don't have any foresight. We had a lot of foresight.

I think we'll see it in the months ahead when the cable communications system peaks with franchise awarding in Milwaukee. This city has honeycombs of conduit under it which those companies are going to use. It's going to be an efficient way. It's updated, but it was put in place 50 or 60 years ago.

I think we have recycled buildings well, and I think the incentives that have been added to the Revenue Code in recent years to help energize that for energy products and projects going to be very good.

I would like to make two or three more observations on what the previous people have said. We've talked about silicon chips in the Mayor's presentation and in the Secretary's presentation earlier.

Maybe it is a strange thing, but one of the real edge-cutting people in semiconductors was a man who came from North Dakota, stopped in Milwaukee for 4 years to take his education in Dean Kipp's engineering college, and moved on to become chairman of the board of Texas Instruments.

Other people come in. That is one example. Those people have left their mark on this city. Their names grace buildings, the newest the library at Mount Mary College. Those people have done much for this community, and I think places like Marquette University, UWM, Mount Mary have attracted them.

Second, we have—we had as much interest in capital formation, as Father Biever was saying in his remarks, as a corporation has. We see it as an investment. The charitable contribution is as much an investment of the future by education through the institution as capital formation and capital investment is, for example, in corporations.

Senator Proxmire voted with Senator Kennedy during the economic recovery bill of 1981 in setting a new level of a 10-percent charitable contribution limit on revenues for corporations when the previous had been at 5 percent.

Now, would it be nice that corporations averaging 5 percent for such investment. They're only averaging 1.2 percent, but some are bumping up against the 5 percent, and we are grateful for the support of the Congress in raising that to 10 percent.

And finally, let me make one general observation. We have a very large industry in this community which is known as the "quiet company," and the quiet company, Northwestern Mutual Life, only recently, the last 4, 5 years, has become a little bit more outspoken.

Perhaps our efforts, communitywide, corporatewide, education, in Milwaukee has been a bit too reticent, a bit too quiet.

If we would turn to Dean Kipp and say tell me about that new program—not new anymore—called biomedical engineering which you take to the doctoral level and which has really been a great development, we don't hear much about it. But it is in its sense of the field and its shape of the field just like silicon chip.

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And I think if we have enough staying power, and enough friends within this new context of let's recycle old structures, let's energize it, we're in pretty good shape to be partners in this city for the future.

And I didn't mention the one structure one time.

Representative REUSS. And I won't. Senator Proxmire.

Senator PROXMIRE. Well, thank you, Chairman Reuss. I want to congratulate Chairman Reuss on calling this hearing. I think it's an excellent idea.

I've been on the Joint Economic Committee for about two-thirds of its life, more than 20 years, and I don't think before the committee has gotten involved in the economic problems with specific cities at least in quite this way.

The Banking Committee was involved, of course, in New York in quite a different way, but I think this is a constructive and excellent way to see what we can do about the economy of a part of our Nation which is going to be in very, very serious trouble. It's in trouble now, of course, and the theme song that we're going to have to unfortunately sing for years to come is, "I Can't Give You Anything But Love, Baby."

We don't have any money to give you. We're not going to give you any money, and unfortunately the Mayor sang that song, and he's not getting enough; but no matter what administration is in authority, we're going to have to rely far more on local resources and local initiative and somehow find locally the resources we have to have.

Marquette is an enormous asset for the city of Milwaukee. I think that we realize that in Wisconsin more than perhaps in other States.

Now, really the central economic strength of any community is the people, their skill, their ability, their initiative, their management ability, but also the kind of education and the kind of training that only big universities like Marquette can give; and, of course, the University of Wisconsin-Milwaukee is another fine asset in the same kind of way.

I'd like to ask Mr. Reedy this. As I understand it, Mr. Reedy, and perhaps some of your colleagues could help you here, Marquette has continued the Catholic Church's long dedication to liberal arts education.

Mr. REEDY. Yes, sir.

Senator PROXMIRE. And also developed a series of career-oriented programs which I think would enhance the economy of the Milwaukee area. It certainly enhanced my office by providing interns, for instance, who are very talented, very helpful.

Could you outline the present focus of these programs, give me some indication of where they're going?

Mr. REEDY. I can in terms of our communications journalism program at Marquette, and I assume my colleagues could handle other fields, too.

I would like to speak specifically to journalism because I think it will illustrate generally what I regard as a Marquette program. Journalism fundamentally is a professional field of education, but it is a professional field of education which makes sense only to the extent that the general fields of the liberal arts are brought to bear upon journalism.

What I think that we are doing in journalism—and we are very actively revising our journalism curriculum at Marquette, because what we are trying to do is to prepare our students to step into a rapidly changing world, and fundamentally in journalism we do not spend too much time on teaching journalism techniques; they change every week.

The journalism that I stepped into many, many years ago is not the journalism of today; and, in fact, the journalism of 10 years ago is not the journalism of today.

And if a student is only studying professional skills and techniques, that student is going to be obsolete the day the student graduates.

Therefore, at Marquette and in the journalism program we are very insistent upon their getting adequate philosophy, which they must anyway under the Marquette system. That's one of the things I like about Marquette. They must get adequate theology. They must get some adequate cross section of the social sciences, and they must get some adequate cross section of the physical sciences.

I personally try to encourage all of our students to take some courses that the physical sciences department offers in physics in which they get an overall concept of the impact of the physical sciences upon humanity.

Journalism exists to facilitate the public dialog upon public questions; and consequently, a journalist must know something about what public questions are and must know not just how to write a lead—I can take anybody and teach them how to write a newspaper lead in 15 minutes if they're intelligent. They must know something about humanity—how humanity got to this point—to be good journalists.

And consequently, we insist that they study some economics. We insist that they study some physics, some biology, some philosophy, some history, a concept of the overall, history of the United States and of the world itself. This to my mind makes a good journalist, and from what I know of the other programs at Marquette, I think the same philosophy holds true.

We are one school, one university that still insists upon logic, and I find when I teach graduate courses where I get students from other universities that have not had to study logic that I have a great deal of difficulty. Sometimes I have to suspend lectures that I should be giving on the subject matter itself in order to get back to elementary logic.

I don't have too much confidence in the type of education that does not go back to the basics of the human condition, what makes human beings, and this we do at Marquette.

Senator PROXMIRE. If I may just follow up on that, Mr. Reedy. As I understand it then, your graduates not only go to work on newspapers and radio and television, but they go into public relations. They go into corporate communications, various levels.

A recent article in the Wall Street Journal indicated that a surprising proportion—in fact, I think it was very close to most of our gross national product was in one form of communication or another.

Mr. REEDY. It is.

Senator PROXMIRE. Communication is an enormous spread, not only the obvious areas but also all the communications with any kind of a business. If a business is to operate, it has to communicate at every

level, up and down, and, of course, communicate to the people on the outside and communicate in other areas.

And the kind of skills and techniques that you teach, therefore, would be extraordinarily comprehensive. I think most of us are inclined to feel that you're just talking about the Milwaukee Journal and the Milwaukee Sentinel and the TV stations, but you're talking about every aspect of industrial and economic life where communication, of course, is right at the heart; isn't that correct?

Mr. REEDY. Very definitely, Senator. In fact, a surprising number of businesses are quite anxious to get the graduates of our journalism college because they can write English. They can write comprehensible English. We do not let them out of the place if they cannot express themselves lucidly in the English language and in at least one other foreign language.

In addition to that, by the way, quite a few of our graduates now are going into law schools because the law schools are beginning to appreciate the background of the kind of journalism education we offer at Marquette as preparatory work for law, because what we are teaching them in a sense is not just the techniques of journalism. As I said, those techniques are relatively simple. What makes a good journalist is that journalist's knowledge of human beings and the journalist's capacity to express himself or herself in lucid English.

For example, I'm assisting in teaching one course in the world press and another course in journalistic ethics and another course in political communications, all of which do have some very straight and clear-cut relevance to the needs of industry, both in the international field and in the local field and to the needs of the Government.

Senator PROXMIRE. Mr. Kipp, I think we often see and read and hear and discuss the antagonism between the private sector and Government. However, in the case of Marquette, there's been a strong and constructive relationship between Marquette and local and State and Federal Government.

Could you give me some insights into how these relations can be revised and strengthened?

Mr. KIPP. Well, I think what we try to do in our process of teaching the students is that he owes some debt to his community, however he expresses that.

I might followup a little bit on George Reedy's philosophy. I don't think in many engineering schools you think of that as being oriented toward human values, because I think we're associated with things too much.

I would like to followup on that with our freshman design course. We teach a course to our freshmen in engineering because we think they ought to begin to think about what engineering is all about, and we constantly urge them to think about human values, and the majority of these design projects, recognizing that they're freshmen yet, are in areas to help the blind in which they have developed computers to help the blind read, the handicapped where they have developed devices to help a particular handicapped. We've had some in helping the elderly. We've had many of them that are into the hospital area where people are bedridden, and we've asked them to look at that.

It's quite exciting to see these young people begin to get involved with people and to the extent that they will go out and visit the nursing

homes and work with them. They design projects for some of the local health care centers to help them. Little parks for children and such like that.

I think it's a good idea to get the engineer involved in these human values, which then spreads on to his development as a good leader in the community, and he becomes involved in the community.

I think that's one of the exciting things that I see at Marquette, that is the ability to be able to do that.

Senator PROXMIRE. I think one of the most encouraging aspects of life in Milwaukee is the increasing role the students are playing, not only learning, but in the process making real contributions in all kinds of ways.

One other question for Mr. Biever—and, of course, I suppose we're meeting here on a relationship between private university and a private economy. I think Marquette and Milwaukee are pioneers in that kind of a relationship.

Where do you see the relationship between the private economy in Milwaukee and Marquette going and what can we do in the Federal Government to help achieve a stronger and more rewarding set of relationships, if anything?

Father BIEVER. I see it growing rather than taking any setback. I think the present developments in terms of forcing the local community to interact among its various components are real blessings, because I think they focus in on the fact that dependency is a mixed blessing.

I feel that the support of the community for Marquette University has been extremely strong. I see it building.

I think earlier in the questioning we talked about reticence. I think that the time for that reticence is over. I think that the university has to frankly acknowledge and build upon and stress and communicate its urban importance. Perhaps we've assumed it too much.

I think that—to point you just a few examples—it seems to me that one of the things we have been saying this afternoon is that we are very concerned with human values. Ethical consideration. Ethical considerations in health delivery systems, in business administration, in law.

These are questions that do not render easy solutions. They're things that have to be analyzed clearly and effectively. I would like to think that one of the great contributions of Marquette is its alumni. A vast majority of our alumni remain here in the State and in this community.

If, as a matter of fact, we can impress on our students the need for ethical honesty for due concern, then it seems to me we have not only made a contribution in terms of our mission, but it seems to me we've made a contribution in terms of the community, as intangible as that is, as nonmarketable as it may be or noncountable. It seems to me that it's important.

More important, I think for us to outreach to those who are less advantaged as we are, trying to do through our dental outreach program and our tutorial program run under the college of liberal arts, among others—Dean Kipp referred to his own program—represents a major contribution to this community.

Senator PROXMIRE. Do you think that the Federal Government can enter into this more constructively? We're all aware of the fact that LaFollette—old Bob used to say that the boundaries of the university are the boundaries of the State; and, of course, the State played a big part in many reforms of various kinds with LaFollette and since LaFollette, and the State university has been involved very deeply on a statewide basis.

But here in Milwaukee you've got a great university right here, right at the seat of the State's biggest city. I think all of you have described situations where you've been extraordinarily constructive and helpful.

I'm just wondering if there's some way that we as Members of Congress could be conscious of trying to promote that, push it along, encourage it.

Mr. SANKOVITZ. Senator, I think that future decisionmaking in some Federal Government circumstances with education is going to require a great deal more inspection and enlightenment and thought. I will use one example. Unfortunately, it's not Wisconsin. It's our neighboring State, Illinois.

We all know that there are problems in the guaranteed student loan programs. There had been abuse and fraud. There had been overuse of it. It has had cost overruns. Now some schools are banding together to say let us look for an alternative.

Most of the major universities of the State of Illinois very recently voted in and achieved legislation to use the tax-exempt revenue bond backed by capital from their own endowments as collateral to go to the capital markets, obtain student aid funds.

That program now is under inspection by the Assistant Secretary of Tax Policies as being yet another tax abuse, and ergo will be a cost in the long run.

I think if we take that general attitude and not make any specific differentiations for the disproportionality that's involved, we may hurt those schools which the Government as a whole, the country as a whole has pushed into the corner.

The schools have to find their own way to come up with funds for students to go to school. They come up with their own funds backing capital formation, and yet there's a possibility it will be excluded under new tax legislation.

It's a little more involved than most of the tax exempt circumstances, but I think we need your wisdom and your attention and your help in showing that programs which are generated for a good purpose can somehow survive in order to help, (a) the overall tax circumstances of the country; and (b) survival and flourishing of the institutions involved.

Senator PROXMIRE. You've been very helpful. Chairman Reuss, I wonder if we could ask Mr. Sankovitz to submit in writing a little further——

Mr. SANKOVITZ. I can do that.

Senator PROXMIRE [continuing]. Explanation of that. That is a most constructive suggestion. Give us some details on it.

Representative REUSS. It is so ordered.

[The following information was subsequently supplied for the record:]

MARQUETTE UNIVERSITY,
Milwaukee, Wis., October 9, 1981.

Hon. HENRY REUSS,
Chairman, Joint Economic Committee, Rayburn House Office Building, Washington, D.C.

Hon. WILLIAM PROXMIRE,
Senate Member, Joint Economic Committee, Dirksen Senate Office Building, Washington, D.C.

DEAR CHAIRMAN REUSS AND SENATOR PROXMIRE: This responds to your request yesterday at the Committee's Milwaukee hearing that I add to the record my concern for possible Congressional misinterpretation of new efforts to secure tax-exempt revenue bond-generated capital for student aid programs.

Within the context of describing new initiatives among colleges and universities to obtain fresh capital for student aid, I mentioned the program newly organized by a collection of independent institutions in the State of Illinois. I described that effort as an example of private institutions banding together to (a) seek alternatives to the federal Guaranteed Student Loan program and (b) obtain enabling legislation which would allow them to use tax-exempt revenue bonds to obtain the necessary capital.

My understanding is that Treasury is examining closely the proliferating use of tax-exempt revenue bonds, some of which recent usage has bordered on the inappropriate or excessive use of that mechanism. Corrective legislation may be proposed soon for Revenue Code Section 103 issues.

My point in raising this issue was to request your close attention to the distinctions involved in these cases. The Illinois institutions are not floating an indiscriminate bonding program. Rather, they are willing to pledge their reputations, their commitment to due diligence in collections and their collateral in order to obtain capital for new student aid that might serve as an alternative to GSL. A sweeping prohibition against such innovation would be a tragic decision threatening not only the spirit of entrepreneurship at these institutions (and others, in other states, that might wish to emulate them) but also the basic notion of choice in the enrollment decision-making of future students.

I encourage you and the Committee staff to learn more about this effort and how a negative Treasury opinion of its eligibility for tax-exempt revenue bond capital formation might suffocate what seems to be a reasonable, new idea. If you wish more specific information on this program I suggest you contact Dr. William I. Ihlanfeldt, Vice President for Institutional Relations, Northwestern University, Evanston, IL 60201.

We appreciate very much the time and effort you expended on holding Committee hearings in Milwaukee. I hope our remarks will be of use to you and that you will think of Marquette when the University can be of assistance to you.

Sincerely,

JAMES L. SANKOVITZ,
Vice President for Governmental Relations.

Representative REUSS. Before you came in, Senator Proxmire, Father Biever had suggested that Marquette is pleased with the action of Congress in allowing a nonitemized charitable deduction which enables people of average means to help a university in which they believe.

Senator PROXMIRE. I think I caught that.

Representative REUSS. And he hopes that it would be made permanent.

Senator PROXMIRE. I hear it on the level of somebody who approves of a vote I cast, and you mentioned my name. It's refreshing and unusual.

Representative REUSS. That was even twice you were favored. Anyway, we're most grateful, Father Biever, to you and to Mr. Sankovitz, Mr. Reedy, and Mr. Kipp. You've made a real contribution to our studies, and we thank you so much for being with us.

Mr. KIPP. Can I get one question in?

Representative REUSS. Yes; you can.

Mr. KIPP. I'm going to put my other hat on now and that's go down to the Sewer District, which I recently resigned from, but which I'm very much concerned about. I know you're interested in the economy of the Milwaukee community, and I think this program has a great deal of effect on the Milwaukee economy, not only the actual dollars that should be coming into it by way of construction and development, but also from the standpoint of industry maintaining its position here and being served in a way that it should be served.

And I'm really concerned because on this Clean Water Act which came out in 1972, and I look at the appropriation for next year and I see it wobbling somewhere between zero in the House and $2.4 billion, I believe, in Senator Chafee's proposal. The administration is also not too far from that.

But I just came back from Detroit at a Water Pollution Control Federation meeting, and I understand that there are amendments to this bill in the House. I am really concerned if that comes out to zero, because this community needs help in that area.

Now, I'm not clear if the 75-percent funding is necessary. I think the consensus at the meeting is that 50 percent is acceptable, but I think we have to get something. If we don't get anything, we've got an awful lot of people who have been brought into this community in the way of consultation and program managers, construction managers, and they're ready to go, but that money is not available.

I'm quite concerned about the economy here and the effect it will have, not only on labor and construction equipment manufacturers, but on the whole thing.

Representative REUSS. Well, I surely agree and I know Senator Proxmire does, too, that those appropriations are essential and are good value to the taxpayer.

My one regret is that you've retired from the Commission, but since I'm retiring myself, I can't be too harsh with you. Thank you for the great job you did when you were on it. Thank you again, Father Biever, and gentlemen.

There have been requests from a number of citizens to appear briefly, and we're delighted to hear from them. I will ask them to limit their presentation to no more than 5 minutes, because we are operating under time constraints.

Mr. Jack Norman of the Institute for Community Education. Mr. Norman, do you have a prepared statement?

Mr. NORMAN. Yes, I have. I'll submit the prepared statement.

Representative REUSS. If you would. That would be included in full in the record, and then proceed in any way that you wish.

Mr. NORMAN. Fine. I'll make some excerpts from that today paying particular attention to some of the comments that were made earlier.

Representative REUSS. Please.

STATEMENT OF JACK NORMAN, INSTITUTE FOR COMMUNITY EDUCATION, MILWAUKEE, WIS.

Mr. NORMAN. First, in regard to job loss in the Milwaukee area and the State, part of our prepared statement will include a listing of Milwaukee area and Wisconsin companies specifying the form of disinvestment and estimates as to the job loss.

I notice the mayor was pleased—for example, his example of 3,100 jobs created through the Land Bank. But in the Milwaukee area alone there are seven manufacturing corporations, each of which has lost well over 3,000 jobs in the past two decades—Allis-Chalmers, A. O. Smith, Cutler-Hammer, Allen-Bradley, International Harvester, and American Motors.

It's no surprise, I am sure, to you that the situation is quite severe in terms of loss of manufacturing jobs, and gains that have been made have in no way compensated for that loss.

In terms of overall employment, the loss of manufacturing jobs has been more than offset by an increase in jobs in other sectors, such as financial and consumer services; but these jobs differ from the manufacturing jobs in several important respects.

They're lower paying, less skilled, and with fewer fringe benefits, and the workers in these jobs are not organized by unions.

The new jobs offset the lost manufacturing jobs in numbers only. In all other respects they represent a shift of power and wealth away from workers.

Further, many of the new manufacturing jobs in our area are in the western suburbs. For example, in 1979 the amount of new plant construction measured both by square footage and dollar investment was the same for Milwaukee County and Waukesha County, yet Milwaukee County has more than three times the population and four times the manufacturing employment.

This shift has had a tremendous effect on minority workers. Blacks don't live in the places where the new factories are being built. The 1980 census shows almost 150,000 black people in Milwaukee County and only 733 in Waukesha County, which is experiencing the bulk of the new manufacturing production.

The second point that I would like to comment on is regarding tax policies. Again, the mayor made specific reference to the M. & E. exemption and controversies around that. I would also like to mention an even more significant tax reduction in this State—the inventory exemption. Current estimates are that the M. & E. exemption reduces manufacturers' taxes by approximately $50 million a year, while the inventory exemption amounts to about $200 million a year, totaling a quarter of a billion dollars in lost tax revenues.

The losses to communities, even where they have been partially reimbursed by the State, are one major reason why residential property taxes have risen so much in the past decade.

Twelve years ago residential property taxes made up one-third of total tax revenues in the State. Now it's almost 60 percent. During the same period, the share of total revenues coming from manufacturing has gone from 21 percent to 8 percent.

The question—and this is the question that the mayor asked—is did these tax exemptions help boost the State's manufacturing employment? Well, it certainly hasn't helped in Milwaukee County, which has seen a continuing erosion of manufacturing employment together with the los of tax revenue.

As far as the rest of the State is concerned, statewide, manufacturing employment hit a low in 1971 and has been rising since; but the tax exemptions didn't come until 1974 and later. So they couldn't have been responsible for the turn-around in State manufacturing employment.

Further, being as charitable as we could toward these tax exemptions, suppose that they were, in fact, responsible for the gain in statewide manufacturing employment.

According to State figures, in 1979 Wisconsin gained almost 23,000 manufacturing jobs, third in the Nation behind only California and Texas.

Well, if we suppose that all 23,000 jobs were the result of the tax breaks, at a cost of $250 million, that means each job cost $11,000. At an estimated wage of $5.50 an hour for these new jobs, since they are predominantly nonunion jobs, are annual wages for $11,500.

In other words—and this was alluded to in one of the earlier statements—apparently the jobs that have been created, assuming that there has been a creation of jobs, bring in about as much in annual wages as is costing the State taxpayers in terms of tax exemptions.

Third point that I would like to make, sort of miscellaneous several points. One has to do with the downtown development in Milwaukee, which is a major strategy here, of course, for our economic revitalization, and while this certainly has a dramatic effect and will have a dramatic effect on the downtown neighborhood, we feel it's unlikely to have much of an effect on the entire Milwaukee area.

There just isn't enough of a base in downtown Milwaukee to provide the stimulus that the entire Milwaukee area needs. Even writing in a number of service sector jobs to the city isn't adequate to make up for the loss in manufacturing.

Clerical jobs as well as jobs in the support services that the downtown companies would require are not as well paying as the lost factory jobs. Downtown redevelopment will help downtown, but it is not a solution to Milwaukee's problems.

I'd like to mention very briefly the atmosphere of deregulation that we're in now as another strategy that is being implemented in the pursuit of economic growth.

It's ironic that the deregulation fervor is entirely one sided; while business is freed from restrictions, organized labor remains bound by what are, in fact, the most restrictive labor practices in the developed capitalist world; and as one specific example, I would mention the right to work law and the prohibition on secondary boycotting.

Behind all these issues lies the basic issue of accountability of a corporation, to be free to be a responsible and responsive member of the community.

The question of accountability to the public goes beyond legislative, fiscal, or monetary reforms. It strikes at the heart of our economic system. Is it possible to make our mark in a capitalist system and account, not only to the owners of capital, but to the citizens who provide the labor?

We think this is the biggest challenge to our capitalist system, and in this regard it's important to remember that a revitalized economy does not simply mean more—more jobs, more income, more production. It's no blessing to have booming business if it's based mainly on overproduction for military and consumer needs, not while so many citizens plead for food, shelter, education, and recreation, and so on and so forth. We feel that judgments of value deserve a prominent place in economics, and that any program for economic vitality should place

as much emphasis on the quality of business activities as on the quantity.

And a final remark. We greatly appreciate this opportunity for these hearings, and would like to urge that if not at these hearings, at some time, that there would be a specific opportunity to have a hearing of this kind with substantial participation from working people in the Milwaukee area as well as business, corporate, and labor leaders.

Thank you very much.

[The prepared statement of Mr. Norman follows:]

PREPARED STATEMENT OF JACK NORMAN

The Institute for Community Education is a two-year old nonprofit organization, formed for the purpose of research and public education on topics relevant to Milwaukee's economy. Our statement today is in three parts: the first deals with the plant closing situation, the second with tax policy as a way for revitalizing our economy, and the third with several other strategies.

1. With respect to the plant closing situation in Milwaukee and Wisconsin, we submit the list accompanying this statement, detailing closings by major Wisconsin corporation (see accompanying list).

The local impact of corporate disinvestment can be measured in many ways. But one pair of statistics tells the story most simply: in the decade from 1967 to 1978, manufacturing employment in Milwaukee County fell by 9 percent; during the same period, manufacturing employment in the rest of Wisconsin rose by 33 percent. The same facts show up if we look at an even longer period of time. Milwaukee has been losing manufacturing employment to other parts of the state, nation, and world.

This explains why state officials can be pleased with Wisconsin's job figures. Taken as a totality, the state is one of the leading job gainers in the country. But Wisconsin is a state divided. Milwaukee County, and to a lesser degree, the rest of the old lakeshore industrial belt from Kenosha to Sheboygan, roughly speaking Interstate Highway 43, has been suffering while the rest of the state has been in more of a relative boom. Milwaukee County has been losing its big shops.

In terms of overall employment, the loss of manufacturing jobs has been more than offset by an increase in jobs in other sectors, such as financial and consumer services. But these jobs differ from the manufacturing jobs in several respects: they are lower-paying, lesser-skilled, with fewer fringe benefits, and the workers are not organized. The new jobs offset the lost manufacturing jobs in numbers only. In all other respects, they represent a shift of power and wealth away from workers.

Further, many of the new manufacturing jobs in our area are in the western suburbs. For example, in 1979 the amount of new plant construction, measured both by square footage and dollar investment, was the same for Milwaukee County and Waukesha County. Yet Milwaukee County has more than three times the population and four times the manufacturing employment.

The shift to the suburbs has a tremendous effect on minority workers. Blacks just don't live in the places where new factories are being built. The 1980 census shows almost 150,000 Blacks in Milwaukee County, and 733 in Waukesha County. This, while the unemployment rates for non-Whites in Milwaukee County are among the five highest in the nation.

11. This section concerns tax policies, state and federal, to deal with the situation. Wisconsin's experience is instructive.

A series of tax reductions for business was passed by the Wisconsin legislature during the 1970's. Most important were two: the Manufacturer's Machinery and Equipment Exemption (commonly known as the M&E Exemption) and the Inventory Exemption. The M&E cut property taxes for Wisconsin manufacturers by over $50 million a year. The Inventory Exemption was even more costly to taxpayers, amounting to close to $200 million a year.

Even though the state reimburses local governments for the revenues lost through these exemptions, the state reimbursements have not been enough, in most cases, to make up for the lost revenues. That's one reason residential property taxes have risen so much in the past decade. Twelve years ago, residential property taxes made up one third of total tax revenue in the state;

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now, it's almost 60 percent. During the same period, the share of total revenues coming from manufacturing has plummeted from 21 percent to 8 percent.

The main question is: did the tax exemptions help boost the state's manufacturing employment? It certainly hasn't helped in Milwaukee County, which has seen a continuing erosion of manufacturing employment together with the loss of tax revenue. What about the rest of the state, where manufacturing employment has increased? Statewide manufacturing employment hit a low in 1971, and has been rising since. But the tax exemptions didn't come until 1974 and later. So they couldn't have been responsible for the turn-around in state manufacturing employment.

But let's be as charitable as we can; let's suppose the tax exemptions did produce a gain in manufacturing employment. State officials brag about the net gain of 22,800 manufacturing jobs in 1979, third only to California and Texas—suppose they are directly the result of the tax breaks. Well, at a cost of $250 million for 22,800 jobs, that means each job costs $11,000! At $5.50 an hour (the new jobs are mostly non-union) each job brings annual wages of $11,500. What kind of bargain is a $11,500 job purchased with $11,000 of taxpayers' money?

Nor is there much to cheer about from the federal level, in the recently passed Economic Recovery Tax Act of 1981. As has been pointed out frequently, the bill, which is designed to stimulate investment, has virtually no provisions aimed at targeting the investment for troubled areas such as ours. For example, the only part of the entire tax program pertaining to the problem of cities is the tax credit for rehabilitating commercial structures and certified historic buildings. This is hardly a significant step when considering Milwaukee's need for housing, winterization, and recreational, educational, and health facilities, as well as "just jobs."

Tax policies can be of some help in revitalizing Milwaukee's economy, but only if designed to target investment where it's needed. Otherwise lower taxes are simply icing on the capitalists' cake.

III. Finally, we take a look at several other strategies. One being used now in Milwaukee is downtown redevelopment. While this certainly has a dramatic effect on the downtown neighborhood, it is unlikely to have much effect on the rest of the Milwaukee area. Milwaukee has few large corporate headquarters, nor is it a major government center. There just isn't enough of a base in downtown Milwaukee to provide the stimulus the entire Milwaukee area needs. Even bringing in a number of service sector jobs to the city isn't adequate to make for the loss in manufacturing. Clerical jobs, as well jobs in the support services the downtown companies need, are not as well-paying as the lost factory jobs. Downtown redevelopment may help downtown, but it is no solution to Milwaukee's problems.

Another strategy currently much in favor is that of geographic competition. Wisconsin's tax policy is one example: lowering taxes and other costs of doing business in the State in order to attract and retain business. Governor Dreyfus' dream of a midwest water OPEC is another example of this geographic competition, as is the Buy America campaign. Feeding into these competitive cycles is worse than useless, it's counter-productive. Competition so eagerly entered into merely intensifies the competition, producing a few winners and many losers. Such competition is no solution.

Deregulation is yet another strategy now being implemented in the pursuit of economic growth. It is ironic that the deregulation fervor is entirely one-sided; while business is freed from restrictions, organized labor remains bound by the most restrictive labor laws in the developed capitalist world. Right-to-work laws and the prohibition on secondary boycotting are just two examples.

Behind all these issues lies what seems to be the basic issue: accountability. A corporation can be managed superbly from a business point of view, yet fail to be a responsible and responsive member of the community. The question of accountability to the public goes beyond legislative, fiscal, monetary reforms; it strikes at the heart of our economic system. Is it possible to make our market-capitalist system accountable not only to the owners of capital but to the citizens who provide the labor? This, we believe, is the biggest challenge to our economic system.

In this regard, it is important to remember that a re-vitalized economy does not simply mean more—more jobs, more income, more production. For example, it's no blessing to have booming business, based mainly on military and consumer

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over-production. Not while so many basic needs for quality food, shelter, education, health, recreation, and so on, are not met. We believe that judgments of value deserve a prominent place in economics, and that any strategies for economic vitality should place as much emphasis on the quality of business activity as on the quantity.

EXAMPLES OF PLANT CLOSINGS/RELOCATIONS IN WISCONSIN

(Rank) Company	Type of Wisconsin disinvestmen.	Wisconsin job loss (if known)
1. Kimberly-Clark (Neenah)	Headquarters and research division of service products to Atlanta, Ga.; production and distribution center in Augusta, Ga. Other plants in South Carolina and Georgia.	300
2. Allis-Chalmers	Divisions in every Southern State except Georgia; also Mexico, Argentina, Columbia. 5 northern plants closed including La-Crosse.	12,000
3. Oscar Mayer (Madison)	Partial closing of Madison plant; expansion concentrated in South. Corporation being purchased by out-of-State corporation.	2,000
4. Schlitz	Expansion in last 2 decades all out of State; Milwaukee plant closed.	1,500
5. Clark Oil	Massive station closings in Milwaukee area	
6. Rexnord	Construction equipment division to be sold or closed	
7. A. O. Smith	New factories in Tennessee and South Carolina	4,500
8. Pabst	Recent expansion all out of State, including Georgia	
9. Bucyrus-Erie	Expansion out of State, Idaho	
10. Cutler-Hammer (now Eaton)	Tennessee, Florida	3 000
11. Trane (La Crosse)	Alabama	1,000
12. Harnischfeger	New plant in Florida; Cudahy plant closed	600
15. Briggs & Stratton	Forced to open Georgia plant in order to expand GM lock and key work.	
16. Koehring	Division headquarters and small manufacturing plant are all that remains of a $360,000,000 dollar corporation. Expansion entirely in South.	
22. Western Publishing	Kansas and North Carolina	225
32. Modine (Racine)	Tennessee and Missouri	
33. RTE	Taiwan	
48. Kearney & Trecker	All machining to be moved out of Milwaukee area; Kentucky	
Other privately held corporation or corporations based out of State that have followed the same pattern are:		
Allen Bradley	New plants in Texas, Mexico, North Carolina, Georgia	2,000
Square D	Tennessee, North and South Carolina	1,000
Heil	Tennessee, Alabama, Mississippi	1,700
Perfex	Mexico, Mississippi, Georgia	
J. I. Case	Engine plant to be built in North Carolina	1,000
American Motors	Operations, including plans for engine plant, in Mexico. Milwaukee plant closed.	12,000
International Harvester	Closed in 1971	8,200
Ladish	Arkansas, Texas	700
Geo. Meyer (Cudahy)	South Carolina	150
Dana Corp. (Edgerton)	Closed 1980. Many of these same workers worked at Highway Trailer which closed in 1971; have 15 to 18 years of service and no pension rights. Dana spent $125,000,000 to purchase Wix Corp., based in the South, at same time.	
Will Ross	Texas, Arizona	350
Gisholt (Madison)	Closed	1,000
Badger Meter	Mexico	150
Bolens-FMC Corp. (Port Washington).	South Carolina	
Jacobson-Textron (Racine)	Mississippi	100
Oster-Sunstrand (Racine and Milwaukee).	Various Southern States	1,500
Green Giant-Pillsbury (Rosendale)	Closed 1981	350
Mercury Marine (Fond du Lac)	Texas, Florida, Mexico	1,500

Note: This is a limited list of closings and disinvestment but does indicate the seriousness of the problem on a statewide level. Almost every major corporation based in Wisconsin now has production facilities elsewhere, particularly the South or Latin America.

Sources: Milwaukee Journal, Milwaukee Sentinel, Business Week, Racine Labor Press.

Representative REUSS. Can you tell us something about the Institute for Community Education?

Mr. NORMAN. Yes. This is a 2-year-old nonprofit organization formed for the purpose of research and public education on topics concerning Milwaukee's economy.

Our members, either board members or supporting staff, include—all of whom serve without compensation—include academics from UWM and Marquette, community organizers, journalists, trade unionists, and attorneys.

Our activities—in the past we've held two conferences, the most recent one in April, focusing specifically on the Milwaukee economy. We're now beginning production of a series of 30-minute videotapes on different aspects of the Milwaukee economy, and our long-range goal is to provide a combination of educational services as well as independent research.

Representative REUSS. Mr. Norman, do either you or the institute have in writing as a result of research or possibly as a result of the conference you've just described, any kind of a program for the Milwaukee area and its economic future over and beyond the many helpful suggestions you've just made in your testimony?

Mr. NORMAN. We have not to this date put together an actual program for the Milwaukee area.

Representative REUSS. As you do, I would be most interested in seeing what's on your mind. Thank you very much. You've been most helpful.

Mr. Phillip Haney of the United Automobile Workers.

STATEMENT OF PHILLIP HANEY, STEWARD, LOCAL 72, UAW, KENOSHA, WIS.

Mr. HANEY. My name is Phillip Haney. I'm a steward in UAW Local 72, Kenosha AMC plant.

I'll be brief. I know I can't add any expertise to what you've heard all day, the business, labor, and government leaders of the area; but I would like to make sure that there is some input from people affected by takeovers and downturn of the local economy.

I'm one. I'm currently on layoff from American Motors. The older areas of Wisconsin, the corridor in Kenosha, Milwaukee, this area, have been losing jobs at an alarming rate for at least the last 10 years. We don't need experts to tell us which areas are heavily affected.

The corridor in which I live from Center Street to Capitol Drive going west, that whole corridor, you can list on the fingers of both hands very quickly major firms that have been affected—A. O. Smith, American Motors, CLS, Cutler-Hammer, Evinrude, places—Singer Control—lots of places like this.

I myself have lost two jobs to corporate takeovers and moves in the last 10 years. In the early seventies I worked at Speaker Transportation System in North 32d Street just off Center Street. They were acquired by another company, which in turn was acquired by Tenneco I believe, and they were moved to the South.

In 1973 I started working at American Motors Corp. on Richards Street. The jobs there dwindled until 1976 when a large portion was shut down; and 1978 I was laid off for a year and eventually got to transfer to Kenosha.

Representative REUSS. Have you been working in Kenosha?

Mr. HANEY. Yes; I'm on layoff now since November. I've worked 2 months since last November; and the Richards Street plant went

down—I'm sure you know this—from 6,000 to 8,000 employees to almost zero, and it's got a handful of people in there now.

And I'm not one of the worst cases. There's people there who are what we would call the backbone of the community. Men with 20, 25 years service. Very many people. People that are not generally considered the type that are unemployed. Children in college. Substantial property owners. Working-class people—have what we generally call backbone of the community.

And I think these cases aren't atypical but are rather typical cases of what's happening now and what's going to happen in the future. I hate to think about my young friends that are just getting out of school, high school in the area, especially minority youths where the economy, the unemployment is approaching or above 50 percent.

I would like to speak to the idea of corporate responsibility. It seems that in the ultimate there is no way of enforcing corporate responsibility except in the governmental area. It seems to me that we need local, State, and national laws that regulate what business can do, what their responsibilities are.

For example, when a business here can shut down, can move to the South and can then play the different work forces off against one another to their own advantage. We could have laws that would regulate this and stop it.

Also, you know, most of the large corporations involved in this are multinational. They are like Renault, who now is a major partner in American Motors, and has plants all over Europe, all over South America, in parts of the Far East, Africa. I think it's telling that in Europe and South America where they have a freer hand in a lot of South American countries, people work for $1 and $2 an hour. Much freer business climate.

And now a lot of our jobs—for example, engines for our cars are made in South America, and they can, you know, lay off people here and manufacture stuff in South America; but in the European plants there are laws which regulate shutdowns, which regulate the corporate responsibility, retraining, relocation, what the businesses are able to do.

It seems that in this country and in this area they have pretty much a free hand to do what they want. So that's the gist of what I wanted to say.

[The prepared statement of Mr. Haney follows:]

PREPARED STATEMENT OF PHILLIP HANEY

Gentlemen, we are here today discussing the "Future of Milwaukee's economy". There are representatives from business and government, and we have our labor leaders here. It is very important that we not forget the plight of the average citizen of Milwaukee, the tens of thousands of working people who are the very lifeblood of the local economy, and the tens of thousands of us who are unemployed through no choice of our own.

The older industrial areas of the state, Milwaukee and Southeast Wisconsin, have been and are losing industries and jobs at an alarming rate. One need not be an expert (although we have plenty of them assembled here) to be able to quickly recite a list of major firms which have been heavily affected. On the North side of Milwaukee, where I live, one just has to look at the corridor going east to west and bordered roughly by Capitol drive and Center Street. Shutdowns or very major job losses have occured at Sealtest, American Motors, Coca Cola, Square D, Evinrude, A. O. Smith, Singer Controls, and many more. The last two jobs I have

had have been terminated by takeovers and the general economic downturn. In the early 1970's I worked for Speaker Sortation Systems in the 2800 block of N. 32nd St. My job was terminated during a takeover by (I was told) the Tenneco Co. which moved the division to somewhere in the southern United States.

Since 1973 I have worked for American Motors Corporation, first in the Milwaukee Richards St. plant, which went from 6–8,000 employees in the early 1970's, to zero employment, and which now works just a handful of men. During the last seven years, and certainly during the last three (I was transfered to the Kenosha plant in 1978), I would venture that I have been unemployed more than I have worked.

Mine is not an isolated case, but sadly, a rather typical one. There are about 1,600 persons laid off from Kenosha AMC right now. Many, perhaps up to 500 people, are longtime. AMC employees and UAW member with 20 to 25 years of company service behind them.

The question is, what lies ahead of them? These are not those one normally thinks of as the "chronically unemployed", but are instead those normally thought of as the "backbone" of the economy; middle-aged, property owners, involved in the community, most with children in college or just leaving home.

My examples are not atypical. What does this bode for our society as a whole, and for our local economy?

If these things are happening to older workers, what about the young people coming out of school? I surely dont envy them trying to find full time and gainful employment. What of minority youth, who have unemployment figures of up to 50 percent, not even counting those who are "lost in the cracks".

To have a healthy economy you must have a healthy population, a healthy society. By any definition, that is not one which places its most able citizens out on the street corners to pitch pennies, instead of on productive and meaningful jobs.

We keep hearing talk of "supply side" economics, and of how it will cure all the ills of this country. They purport to speak in the interest of the business community, but do they really? Can you have a healthy business climate in the midst of blighted cities?

It might be true that inhumane conditions could lead to business gains in some instances, such as in colonial situations, but that presupposes a market at home. Where is the market for the American economy if they allow, if we all allow, the American working class base to be so seriously eroded?

We are talking about the need for cooperation between government, business, and labor, to bring back health to the local economy. We must be able to distinguish, however, between those who are the "cooperator" and those who are the "operator". Area industries have been known to use threats of moving or shutdown to get major concession from their workers, only to shut down later anyway. Industries have been known to use the same threats against several plants in their system, playing one against the other (AMC between Kenosha, Milwaukee, and Toledo) in order to drive conditions down to the lowest possible level.

During these two days of testimony, examples will abound of the decline of the local economy, of local industry. It is not needed that I reiterate it. It is common knowledge, and experts will give the evidence far better than I could.

My point is, that there is a certain responsibility that is required, or should be required of the business community. In a civilized society, it is uncalled for that people be treated in such callous manner. Such shunting of social responsibility cannot be tolerated for long if we are to hold the social fabric of our society together. Will we wait for other Detroit or Watts riots and then wring our hands and ask "why"?

Many European countries have laws regulating the shutdown, moving and acquisition of industries, laws which mandate their responsibility to their workers and to the communities. In this country, we have hardly any. The rule seems to be, "Let the (workers/cities) beware".

Whatever problems there are need more, not less regulation. Lets have laws at the local, state, and national level mandating corporate responsibility. This is the only way to regulate runaways to the sunbelt, not conversely by lowering us all to the lowest level.

We need laws maintaining the responsibility of corporate superpowers, multinationals, which most of our large Milwaukee industry is. American Motors or Allis Chalmers should not be able to force us to compete against their employees in Mexico who are making $1 an hour, and then chauvinistically blaming those workers for our loss.

I heartily hope that some answers come out of the deliberation of this hearing. To fail to find answers to the obvious problems that beset us all concerning the downward spiral of the local economy, and the issue of conglomerates and corporate takeovers, leaves all of us in a hopeless situation going toward the future, regardless of our orientation.

Representative REUSS. Thank you very much. I just have a couple of comments. I completely agree with what you say about the human tragedy of the 8,000 or 10,000 men and women who just a few years ago were working up at the Richards Street plant. I think now there are a couple of hundred left, something like that.

I've been up there, as you perhaps know, many times and tried everything I could think of to find work to keep that plant going, I'll admit without success.

And in general I share your objections to corporate takeover and mergers. However, isn't the following a fact: It wasn't Renault that laid off the people at Kenosha and Milwaukee. In Renault's case, I should think, we ought to be glad they're not just operating a plant in France and a plant in South America, but one day soon will be operating a plant in Wisconsin where one hopes they will provide a lot of jobs at good union wages to a wide spectrum of people, including minorities.

So I—while I'm not an enthusiastic about mergers in general, this could be one takeover that had some good in it. Would you agree?

Mr. HANEY. I would agree. I didn't want to sound like I was anti-Renault. I was just trying to use that to illustrate.

Representative REUSS. Fair enough. You've had a tough row to hoe, and I'm grateful to you for coming and making very real and human the employment problem in Milwaukee. Thank you very much.

Mr. HANEY. We have unemployed committees in both locals 72 and 75. A lot of people laid off. Any help you could give to these people in the future would be greatly appreciated.

Representative REUSS. Thank you very much. We'll now hear from Clara Obremovich of the Allied Council for Senior Citizens.

STATEMENT OF CLARA OBREMOVICH, ALLIED COUNCIL FOR SENIOR CITIZENS

Ms. OBREMOVICH. Mr. Chairman, first of all I want to apologize. Dorothy Seeley, the executive secretary, was going to stay. She asked me to take her place. She had a previous engagement.

Representative REUSS. Well, I'm sure you'll do very well. Dorothy is a very fine person, and tell her that we miss her.

Ms. OBREMOVICH. Two issues at the Federal level threaten to devastate Milwaukee's economy and hurt especially senior citizens. Cutbacks in social security will affect about a half a million Wisconsinites, and the decontrol of natural gas has a lot of seniors very worried because it may double or triple their gas bills.

In fact, Congressman, seniors are really very frightened. I have been out visiting a lot of different senior groups and talking to them. They're very frightened about the economy and they're worried.

We look forward to your attendance at our senior citizens meeting and we'd like you, with your expertise, to help us kind of develop some way, some strategies to save social security from any more cuts and stop the decontrol of gas.

We do want to honor you with an award, because you're going to retire and join the senior citizen rank. I have a letter that I'd like to give you to read at your leisure so we're not going to take any more of your time.

Representative REUSS. Well, thank you very much, Clara. I appreciate this. As you know, I'm very much opposed to any cutback in social security. This is a right earned by our people. It can be financed. It need not be cut back, and if I have anything to say about it, it won't. I feel the same way about natural gas decontrol. Its precipitate decontrol would result in great hardship to people who rely on natural gas for heating, of course, cooking, and who already have been buffeted by inflation; and it's something that we don't want or need to do at the present time.

So thank you very much and we appreciate your testimony.

Laura Strain of Milwaukee Area Technical College.

STATEMENT OF LAURA STRAIN, MILWAUKEE AREA TECHNICAL COLLEGE

Ms. STRAIN. You received from Vic Langer of Milwaukee Area Technical College a prepared statement on what we are doing in regard to technology in our computer graphics program, and I won't read the prepared statement, as it will go into the record as part of today's hearing.

I did want to just indicate that I concur with the people who have addressed the issue of economic development prior to me today, and I think that, for example, the mayor in talking about Milwaukee, certainly as I work with economic development people in other cities, I think Milwaukee has a great deal to market and to be very proud of.

Cleveland and Detroit and Chicago and some of the other midwestern cities are many steps ahead and our problems are not quite as great as we think those are.

The idea that you've come up with—and I think this is very, very good—was the fact that there needs to be that partnership between business and industry, education, labor, the very entities that we're talking about today to work together as a group in approaching the problems that we do need to address. I think certainly something like today can be a catalyst for seeing that happen.

I think that MATC has been very much involved in working with these entities, and we see very definitely, because of economic development that needs to be addressed, the need for being partners in productivity and the need for being partners in technology advancement. Certainly the need to be partners in progress as we want to see happen in Milwaukee, and the fact that we want to be partners in resource sharing.

As I listen to the things that Marquette University talked about—and in our computer graphics program we do work together so that we're not duplicating our efforts and duplicating the expense of equipment, et cetera; and I think that that's very, very important that we do know what each other is doing, that we share in those things and that we work together as a team approach.

I think that economic development in our area does address—needs to be addressed in two ways, and one of those is to be working

with the existing industry that we do have in knowing what their problems are and trying to work with them so that they can expand and grow.

Those of us who work in this know that 80 to 85 percent of our expansion is going to come from the industrial base that you already have, but as we look at technology and the new areas that are emerging at this point in time, we also need to look at how we can address the aspects of broadening that economic base.

We feel that we are helping to do that at MATC through our upgrading and retraining of people. Certainly as technology emerges, we need to be certain that our skilled people, our 2-year associate degree people, our technical people are trained in the new technologies. It's a different aspect of our work force than what we're talking at the university level. We're talking about that, as I said, technically, our skilled, trained person.

We do go out into business and industry to work with them to see that our journeymen are trained in the new techniques as technology emerges.

As the gentleman before me spoke in terms of helping with people who are, for example, describing in the Detroit area with the automotive area, that displaced worker—and I don't particularly like that terminology—but as things happen and they are out of a job, we must see somehow that we are addressing the issues that these people are going to be retrained in new areas so that they can find employment; and I think that's a significant factor for a vocational-technical school to address.

I guess I'm not really coming to you particularly for any specific action other than to be aware of the significant role that the vocational-technical schools do play in economic development; and to add also to what Marquette University indicated with the National Science Foundation, they were very instrumental in helping us with our computer graphics program, and it has been, as you stated, cut back a great deal; and just what is going to happen in terms of our funding in the future projects at this time, of course, is unknown at this point in time.

But I do appreciate the opportunity to make a few points in regard to the vocational-technical system.

[The prepared statement of Mr. Langer, referred to for the hearing record by Ms. Strain, follows:]

PREPARED STATEMENT OF VICTOR LANGER, COMPUTER GRAPHICS PROJECT DIRECTOR, MILWAUKEE AREA TECHNICAL COLLEGE, AND STATE DIRECTOR, WISCONSIN CHAPTER OF NATIONAL COMPUTER GRAPHICS ASSOCIATION

Partners in progress

Educational institutions such as Milwaukee Area Technical College (MATC) and Business/Industry face similar challenges in trying to shorten the time lag between the introduction of a new technology and the educational preparation of skilled personnel needed to implement technical changes. Computer Graphics for example, one of the newest technologies being introduced in business and industry, requires trained personnel in numerous occupational areas.

Computer Graphics (CG) training programs meet today's needs for technicians who can improve manual methods by using the accuracy, repeatability, and speed of a computer.

The high cost of advanced technology demands a linkup of Business/Industry, Schools, and Workers. When partners assist and cooperate with one another, progress through advanced technology can be realized. By working together,

they can share technical expertise and ensure that training opportunities are available for both students and employees.

Business/Industry needs skilled workers and a place to retrain technically obsolete personnel. Parternships with educational institutions such as MATC can result in:

Increased productivity as a result of well-trained and efficient employees.

Employees who are satisfied with their jobs.

A pool of skilled persons who are trained and, in some cases, experienced in advanced technology.

Schools need business and industry to participate in the educational process and provide experiences in advanced technology.

Workers need lifelong opportunities for personal growth and career development.

With the help of industry and the National Science Foundation, the Milwaukee Area Technical College is integrating costly computer graphics in technical training programs.

Local industry advised MATC to integrate computer graphics into design and manufacturing occupational programs rather than create a new occupational program. Computer graphics is viewed as a tool to help workers apply the science and engineering skills more productively after they become proficient in manual techniques.

The industries and the college work hand in hand to teach the latest technical skills to the current and future workforce. Graduate engineers and highly-skilled technicians must function as a technical team if they are to make significant contributions to our nation's improvement in productivity.

The capital investment, maintenance costs, expertise, and time needed to train or retrain the work force all contribute to the financial impact of a new technology. An annual financial contribution not only enables partners to share the cost, but also have a greater influence in the development of a new technology such as computer graphics.

As examples of working partnerships, the National Science Foundation (CAUSE) program funded curriculum development and Computervision Corporation, a leading computer graphics vendor, helped MATC acquire a complete system by providing the computer, two design stations, digitizer, plotter, and software. Computervision backs up technical applications with over 400 computer software specialists. MATC then focused on development of teaching applications rather than software development. MATC has consolidated the computer graphics services in one center to provide terminals, resources, technical consultation, and student assistants for every department. This arrangement gives user departments greater access to terminals and resources than if they had developed their own labs.

In August, 1980, two months after installation, a two-credit, two dimensional graphics course was offered to 60 students and 10 high school students. In the following semester, 90 beginning students, 40 advanced students and 10 high school students took courses in a center expanded to four design stations. Full-time students in Mechanical Design, Electrical Technology, Electrical Mechanical Technology, Civil Technology, Architectural Technology, Numerical Control, Industrial Technology, Printing and Commercial Art programs began taking computer graphics courses as an option. Only the Mechanical Design program specifies the course as an elective. Currently, project subcommittees are busy revamping the curriculum to completely integrate computer graphics courses and exercises in the other programs.

Fall, 1981 enrollment grew to 150 plus students. Employees who are continuing their education and updating their skills make up 10 percent of the enrollment. Such courses as electrical design, new last fall, are offered primarily for employees.

MATC also serves as headquarters for the Wisconsin Chapter of the National Computer Graphics Association and now is directly involved with users through out the state.

Thru industry, college, and worker involvement a skilled manpower resource will develop with relevant skills, carrer goals, and a high degree of job satisfaction.

If Milwaukee has high quality productive workers, skilled in advanced technology, the area will be most attractive for economic development. Then all partners begin to reap the dividends these new technologies generate and as in

all good partnerships, mutual cooperation brings mutual advancement. We invite you to join us in this partnership.

Representative REUSS. Thank you, We certainly needed reference to the excellent work of Milwaukee Area Technical College in our record, and you've provided it and we're grateful to you. Thank you very much.

Barbara Zack Quindel, attorney. Ms. Quindel, we're delighted to have you here.

STATEMENT OF BARBARA ZACK QUINDEL, ATTORNEY, PERRY, FIRST, REIHER, LERNER & QUINDEL

Ms. QUINDEL. Thank you. I am an attorney with the law firm of Perry, First, Reiher, Lerner & Quindel here in Milwaukee. Much of my practice is devoted to representing labor unions, and in addition last spring I had an opportunity to serve as an instructor at Marquette University in a course on plant closings and runaway industry strategies for labor, which class was composed primarily of people in labor; and I got a good dose of what they feel has been happening to the local economy. Primarily they're concerned with this problem of closings and relocations elsewhere.

I was coeditor, too, of a booklet under the same title which I forwarded to your office, and I hope you'll have time to look at. Others have and will describe the nature of the serious problem that is facing our local economy as industry decides to expand elsewhere or shut down completely.

I want to examine the role of Federal law that has, I believe, accelerated capital flights and stripped labor of any legal tool to really challenge employers in this area.

The course in the booklet spends a great deal of time trying to explain various legal tactics that workers can use to gain some protection from this kind of unregulated capital shift that has really totally undermined their job security; and even back in the spring I had to admit that they really were very ineffective tools for employees to use to protect their job.

The duty to bargain under the Taft-Hartley Act does not cover employees' right to bargain about investment decisions. They have no say as to whether a local company will invest in Texas and move the department down there and shift operations into other areas.

And even the area where labor law has for a while given employees some rights in subcontracting or partial closings where we thought the duty to bargain exists, there's no obligation to come to any agreement.

So viewed in the context of preventing closures, this tactic was seen solely as a way to gain some kind of concessions when ultimately the doors did shut down for your department, for your plant, and you went on to look for another job rather than as a way of actually affecting an employer's decision.

Well, that was the pessimistic view before the U.S. Supreme Court in June of this year made its ruling of First National Maintenance Corp. and declared that management must be free from the constraints of the bargaining process to the extent essential for running a profitable business.

It held that the National Labor Relations Act did not require an employer to bargain over a decision to close part of its business.

In one fell swoop then the ability to file an unfair labor practice against an employer who refused to bargain over its decision to close a plant, as weak as that tactic was, has been taken completely away from workers.

Furthermore, trying to show that an employer's decision to move or expand elsewhere is an antibusiness decision, another possible violation of our labor laws, is really—in reality an impossible feat since it can be defeated by an employer's claim of business necessity.

And we live in a fiercely competitive economic climate, economic world, where it is a business necessity to get away from union. So that while a move or a change in operations may have the effect of being antiunion, it can always be defended under the law as a sound economic decision.

Labor law also presents very little in the way of remedies to workers affected by bankruptcies or successorship when one corporation takes over another plant. Here, too, the law reflects the need for mobility of capital rather than the rights of workers.

Even when workers have tried creatively to remedy such as a breach of contract type of suit, they have not met with success. The workers in Youngstown, after losing several of their steel mills at United States Steel there, were promised their jobs if they could just beat production at the Texas United States Steel mill; and when they lost their jobs despite their increase in productivity, the courts ruled that there was no binding obligation on the company to respect that promise it made.

Not only does Federal law offer no tools for workers, but by failing to treat our 50 States as one whole the Federal Government has allowed certain areas to be maintained as havens for business at the expense of workers in all parts of the country.

It's really no accident that the States that have the lowest unemployment, welfare, workers' compensation, the biggest tax breaks to business, the least regulation of health and safety, are those States that are the least unionized.

I think that the key to raising these standards is to expand the organized labor movement. In the long run, only by having these areas organized, can we remove the very incentive which causes our jobs to leave this area and move elsewhere and essentially drive down the standard of living for all, because if they don't move they compete to lower the standard of living in Wisconsin.

This approach then to Milwaukee's economic problems is I think really requires a national approach, and Members of Congress who are seriously willing to look at Federal laws which have aided the process of job loss.

I think specifically I would ask that you look toward national regulations or national minimum standards in areas such as welfare, unemployment, workers' compensation. I would ask that you join in with Representative Oberstar of Minnesota in his bill to—I think it's House bill 3750—to repeal the right of States to pass right-to-work laws which have kept certain States, particularly in the South, havens for business.

We need you to introduce legislation to repeal those sections of the Taft-Hartley Act that rob labor of its effectiveness, specifically the curtailment of the right to strike, the prohibition against secondary boycotting, and any kind of extensive recognition that you can.

And we need a new definition of this duty to bargain that allows employees a meaningful role in the decisions that affect their very livelihood.

The belief that what's good for business is good for our country is less true today than ever before, and I think that it is time that we look to deregulating labor as a means of solving not only the problems locally here in Milwaukee, but for the rest of the country as well.

So I would ask you to look into these areas. I think it's a different kind of approach, but one that I think addresses the basic problem that we face.

Representative REUSS. Isn't that really the crux of the matter? What is it, section 14B of the Taft-Hartley Act, the right-to-work provision, whatever it is. If they didn't have that, then the incentive to move a plant would be essentially diminished, would it not?

Ms. QUINDEL. I think it would be tremendously diminished. You hear a lot in the studies that have come out about that, the tax benefits of the South, the energy benefits in the South, a number of factors aside from the lack of unionization.

But the studies that I have done and read in my research in this area have conclusively shown that none of these factors are as key as the lack of unionization, because really, all those other things are dependent upon the level of unionization in the States.

So a good business climate is a bad labor climate. So yes, I would think that that's a very important thing to look at. Thank you very much.

[The prepared statement of Ms. Quindel follows:]

PREPARED STATEMENT OF BARBARA ZACK QUINDEL

My name is Barbara Zack Quindel. I am an attorney with the law firm of Perry, First, Reiher, Lerner & Quindel. Much of my practice is devoted to representing labor unions. Last spring I was an instructor at Marquette University teaching a course on "Plant Closings and Runaway Industry: Strategy for Labor," and co-editor of a booklet under the same title.

Others have and will describe the serious problem our local economy faces as industry partially or completely shuts down or decides to expand out of state. I want to examine the role federal law has played in accelerating capital flight and stripping labor of any legal tools to challenge employers in this area.

The course and booklet spent a great deal of time exploring various legal tactics workers could use to gain some protection from unregulated capital shifts that have totally undermined their job security. Even then I had to admit there were few legal options to protect these jobs. The duty to bargain under the Taft-Hartley Act has never covered employers' investment decisions (e.g., shall I expand in Milwaukee or put these operations in Texas and phase out that work here) and even in the areas of subcontracting and partial closings where the duty to bargain was thought to exist, there is no duty to agree on anything. Therefore, this duty, viewed in the context of preventing closures, was solely a way to gain concessions in an ultimate plant closing agreement rather than as an effective means of actually changing the employers' business decision. This was the view before the U.S. Supreme Court made its decision in First National Maintenance Corporation on June 22, 1981. Declaring that "management must be free from the constraints of the bargaining process to the extent essential for the running of a profitable business", the Supreme Court held that the National Labor Relations Act did not

require an employer to bargain over a decision to close part of its business. Thus, in one fell swoop, the ability to file an unfair labor practice against an employer who refused to bargain over his decision to close a plant—as weak as such a tactic was—has been taken away completely from workers.

Furthermore, trying to show an employer's decision to move is an "antiunion decision", another possible violation of labor law, is an impossible feat since the magic words "business necessity" defeat any claim of antiunionism. In a fiercely competitive world economy, it is a business necessity to get away from unions. Moves that have the effect of being antiunion, can always be defended by sound economic motives.

Labor law also presents little in the way of remedies for workers in bankruptcy or successorship situations. Here, too, the mobility of capital is at the expense of workers.

Even when workers have tried creative legal remedies like breach of contract suits, they have not met with success. In Youngstown, Ohio, where workers were promised their job if they could beat production in the U.S. Steel Works in Texas, courts refused to force the company to honor its representations even when the workers did increase their productivity.

Not only does the federal law offer no tools for workers, but by failing to treat the 50 states as one whole, the federal government has allowed certain areas to be maintained as havens for business at the expense of workers in all parts of the country.

It is no accident that the states with the lowest unemployment, welfare and workers compensation benefits, the weakest health and safety regulations, and the biggest tax breaks for business are those states, particularly in the South and Southwest, that are the least unionized. The key to raising these standards, then, is to expand the organized labor movement in these areas. In the long run, only by organizing the unorganized can we remove the incentive that causes plants to relocate from areas such as Milwaukee and drive down the standard of living for all workers.

This approach to Milwaukee's problem requires a national approach and members of Congress who are seriously willing to review the limitations of our current labor laws. Specifically, we need you to join with Representative Oberstar (D-Minnesota) in supporting House Bill 3750 to repeal the right of states to pass right-to-work laws which play a major obstacle in organizing in the South. We need you to introduce legislation to repeal those sections of the Taft-Hartley Act that rob labor of its effectiveness—the curtailment of the right to strike and prohibitions against secondary boycotts and extended recognitional picketing. We need a new definition of the duty to bargain that allows employees a meaningful role in decisions that affect our livelihood. The belief that what's good for business is good for the country is less true today than ever before. It is time for Congress to deregulate labor as a means of solving the economic crisis facing Milwaukee as well as the rest of the country.

Representative REUSS. Thank you very much, Ms. Quindel. We appreciate it; and now finally Karen Royster of Local 24, Sheet Metal Workers Union.

STATEMENT OF KAREN ROYSTER, LOCAL 24, SHEET METAL WORKERS UNION

Ms. ROYSTER. One of the things that Ms. Zack talked about was the bankruptcy laws and how they affect workers in corporate takeovers.

And myself and another person here are members of the Sheet Metal Workers Union here in Milwaukee, and both of us were employees at the Schomann Corp., which was a metal fabrication shop here that had been in operation for 53 years.

In June of 1979 the company was sold to a partnership of businessmen, and it was at that time a going concern. Eighteen months later the company, the new owners filed for voluntary bankruptcy under chapter 11 and were at that time over $3 million in debt.

The employees were assured at that time that the company under this reorganization plan would be solvent soon and that no matter what happened, employees would be protected, their wages would be protected.

On February 18 of last year on the day when our pay checks were to be handed out, we were told that they had been working with Marshall & Ilsey Bank on a back-and-forth basis, that Marshall & Ilsey had withdrawn support for the company and that they had no funds to pay our wages for the previous week's work.

We were never paid for that week's work. The checks we had received the week before for our work 2 weeks previous to that bounced, and our vacation pay, which is a percentage of our weekly pay, our fringe benefits, all of which we pay taxes for, were never paid for January and February; and the total cost of that, total amount lost to the employees of the company was, oh, approximately over $70,000.

To this point all the employees at that time were laid off. Many people were laid off for more than 6 months before they found other employment. The money that we were to receive was never repaid us. We paid taxes on that money. We were not allowed unemployment compensation for those weeks that we worked and were not paid.

And we tried to find—our union sought certain kind of redress that basically for a couple—for maybe 10 percent of the people who worked, some money was provided for some of the jobs that they had worked on, but for most people the amount of money lost, the amount of time lost was tremendous. And all of this was legal.

Now, I think that most people—if I went out and wrote a check to somebody and it bounced, I'd be put in jail, but somehow under corporate law, under what corporations are allowed to do through bankruptcy law means that they can write checks to workers for work that's already been done and if those checks bounce, nobody is liable.

So I'm not a lawyer, you know, and I don't know exactly how these things work; but I do know somehow the way—I know corporations can take over businesses, milk off their profits, and close down, and it's done not infrequently. They can use the loss of that business for tax deductions and workers are left with nothing, with no protection for their wages, with no protection for their jobs.

And it seems to me that a part of this process of economic—you know, the slowdown in the economy right now means that workers now more than ever are vulnerable to these kind of things, and I would ask you to look at the kind of bankruptcy laws that now exist in some way of protecting workers' rights better.

Representative Reuss. That's the purpose of these hearings, and thank you very much, Ms. Royster.

[The prepared statement Ms. Royster follows:]

PREPARED STATEMENT OF KAREN ROYSTER

The basic contract between the worker and the employer is a "fair day's work for a fair day's pay." When we miss a day's work, we aren't paid. When we are late for work, money is deducted from our check. If we don't work fast enough, we are laid off. But what happens when the employer doesn't keep their side of the bargain, no pay for more than a week's work. Workers at Schomann are finding out, not a hell of a lot.

Schomann Inc. has been a metal fabrication shop in Milwaukee for 53 years. In June, 1979 the company was sold to a partnership of businessmen; Hirsch, Webber and Faircloth. Eighteen months later, on December 12, Schomann, Inc. filed for voluntary bankruptcy under Chapter 11 to reorganize the business. At that time, the total company debt was more than $3,237,000. The company owed $1,288,000 to Marshall and Ilsey bank, $548,140 to Aetna Business Credit (now named Barclay's American Business Credit) and $1,233,986 to numerous supply businesses. Schomann owed workers vacation pay, welfare and pension funds totalling $78,977.02.

At an employees meeting held by the Schomann management, we were told that under the Chapter 11 bankruptcy process, employees would be protected from any further loss because wages were a priority claim to be paid before any other debt. We were told that our lost pay would be regained through court action and that the company would be going strong by January 1.

On February 18, at the time when paychecks were to be handed out, workers were called into a meeting and told that Marshall and Ilsley had notified Schomann Inc. on the previous Friday (February 13) that M&I would no longer lend them money for operations. According to Hirsch and Webber, the company had found another lender. The bank, disputing the change in accounts, had frozen Schomann funds. Our checks could not be handed out but we should "bear with them" until the conflict was resolved. By Monday we would be back at work, receive our checks and the company would be going strong by summer.

It is now March. Workers at Schomann have not received vacation pay and fringes from January totalling more than $27,000. We have not received more than $28,000 in wages for February (9–18), and we have not received vacation pay or fringes for February. We were not able to file for unemployment until February 16, with U.C. checks not due until mid-March. Meanwhile, the supermarket will not "bear with us" until the problem is resolved.

Since then we have found out more about the situation. Under the Chapter 11 brankruptcy process, there are two kinds of claims, secured and unsecured. M&I Bank and Aetna/Barclay Business Credit held the only two secured claims. The collateral for M & I was all "accounts, contract rights, . . . returns, inventory (including raw materials, work in progress, finished goods held for sale, materials and supplies . . ." The collateral for Aetna was "all equipment including . . . machinery, furniture and fixtures, all accessories, tools, fittings and parts." The priority claim that workers were promised is unsecured, we got first crack at an empty bankbook.

We were told that Schomann Inc. was cut from M&I funds on February 13 and we could not be paid because of the new financing dispute. But according to Federal Court records, M & I notified Schomann on February 6 that funds would be stopped at the close of the workday on February 11. Now Schomann and M&I have worked out a deal. Schomann can continue to operate. M & I gave up its lien in exhange for 35 percent of the money made on the work in progress. Workers were asked, through the union, to return and finish this work with no arrangements for money already owed or guarantee of wages for the future. The workers have agreed not to return to work until back wages and fringes are paid up.

We realize now that we should have had some kind of bond or Mechanics lien at Schomann as collateral in an unstable situation. Under the Chapter 11 process, Schomann paid for all supplies and materials in cash after December 12. Using this principal, workers could have demanded that union representatives verify bank agreements for wages on a week to week basis before work was done. Vacation funds (which we were taxed for even if we didn't receive them) could have been included on checks or sent to our accounts weekly and kept current. Employees could have requested representation on the Creditors committee which is formed under Chapter 11 to oversee payment of unsecured claims. Although we were not among the largest creditors, all creditors can request representation from the court. That way workers would have had information about financial arrangements being made before it was too late.

We are working to make sure that the money owed to the Schomann workers and to the Sheet Metal Union as a whole is repaid. We hope all sheet metal workers will keep in touch with the union about the siutation. And we hope that we and others can learn from this situation if it should occur in the future.

Representative REUSS. Sophie Leiner of Local 438, United Automobile Workers.

TESTIMONY OF SOPHIE LEINER, LOCAL 438, UNITED AUTOMOBILE WORKERS

Ms. LEINER. Thank you. In behalf of the Local 438, World Affairs Committee——

Representative REUSS. What local is that?

Ms. LEINER. Local 438, UAW.

Representative REUSS. What company?

Ms. LEINER. UAW, United Auto Workers.

Representative REUSS. Yes; and what is the plant?

Ms. LEINER. That's AC Delco Electronics. Just real briefly——

Representative REUSS. Please sit down.

Ms. LEINER. Oh, thank you. Just real briefly, I don't know how to state this, but we would like you to have this. May I approach you?

Representative REUSS. Yes. Would you bring that up, John? Thank you very much.

Ms. LEINER. And we hope to see you there, and thank you very much.

Representative REUSS. Thank you. All right, I want to thank everybody here for their patience. It has been a long but very constructive afternoon, and the Joint Economic Committee will now stand in recess until 9:30 tomorrow morning in this place.

[Whereupon, at 5:34 p.m., the committee recessed, to reconvene at 9:30 a.m., Friday, October 9, 1981.]

THE ECONOMIC FUTURE OF METROPOLITAN MILWAUKEE

FRIDAY, OCTOBER 9, 1981

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to recess, at 9:30 a.m., in the Federal Building, Milwaukee, Wis., Hon. Henry S. Reuss (chairman of the committee) presiding.

Present: Representative Reuss.

Also present: James K. Galbraith, executive director; Mary E. Eccles, professional staff member; and John D. Kupper, staff assistant to Representative Reuss.

OPENING STATEMENT OF REPRESENTATIVE REUSS, CHAIRMAN

Representative REUSS. Good morning. The Joint Economic Committee will be in order for continued hearings into the future of Milwaukee's economy.

Yesterday we heard from leaders in State and city government and from leaders in the academic community and others describing aspects of that problem.

There was discussion of how Milwaukee may maintain and augment its traditional broadly based manufacturing excellence, how it can get a larger share of high technology industries, and how it can expand its service sector.

There were many excellent suggestions made, including one that reached very general agreement that there ought to be more institutionalized and greater cooperation between government, business, labor, and academia to make sure that the economic future of Milwaukee is a rosy one, and that jobs are there when the new generation needs them.

The role of government was everywhere mentioned as an important one, particularly as a catalyst for the private sector.

This morning as our lead-off witness, we're very fortunate to have with us someone who is nationally known as one of the most thoughtful Americans on the subject of the future of cities and their economy. James Rouse is chairman of the Rouse Co. of Columbia, Md. He and his company have built several scores of shopping centers around the country in the last 20 or 25 years.

Among the other noteworthy achievements of the Rouse organization is the creation and construction of America's foremost planned new city, Columbia, Md., which is a model for the whole world in what can be done.

He also has turned the attention of himself and his organization to various cities, many of which share Milwaukee's location in the Cold Belt. He was instrumental in the renewal of Boston, Mass., of Philadelphia, and more recently of his own Baltimore. Baltimore, like Milwaukee, is an older city. It is a city of great ethnic diversity with a great many people of German extraction, Polish, Jewish, Bohemian, Slovakian, Slovenian, Montenegrin, black, Hungarian, and so on.

Like Milwaukee, it is not the seat of the central unit of the State university system. Like Milwaukee, it is a port. Like Milwaukee it is not the capital of the State.

Baltimore, however, has shown great dynamism in recent years, and Jim Rouse is a leading citizen of that city. I hope he can tell us something about how that was done.

We in Milwaukee know the Rouse organization, of course, because our very hopeful Grand Avenue Mall, the revitalization of our downtown, is very largely the work of his organization.

He is not here, however, to talk to us about Grand Avenue, much as we'd be interested in hearing about it, but to speak instead from his vantage point as an observer of the life of great American cities and how they may surmount some of the difficulties that confront them.

So Mr. Rouse, if you'd be good enough to step forward and tell us whatever you have to tell us.

STATEMENT OF JAMES ROUSE, CHAIRMAN, ROUSE CO., COLUMBIA, MD.

Mr. ROUSE. You want me to sit here?

Representative REUSS. Would you just sit next to the microphone and proceed in your own way.

Mr. ROUSE. Thank you, sir. I'm privileged and a little awed to be invited to be here. I'm not that familiar with Milwaukee, other than in our role as developer of Grand Avenue. I'm surely not an economist or an expert on economic development.

I also have to say it's wonderful to be talking about a city that I would look upon as an untroubled city compared to those we know in the East. I have always thought of, and continue to think of, Milwaukee as a model older city in America with extraordinary good government over decades, with certainly one of the great mayors of the country, a remarkably alert and active business community, a clean city.

I always feel refreshed when I come to Milwaukee. So to be here talking about how it ought to be doing something better is an unusual base from which to talk. Generally it's Lowell, Mass., Boston, Philadelphia, or Baltimore; some city that would trade places with Milwaukee tomorrow.

Baltimore and Milwaukee do have a lot in common, and you can feel it in the cities, and you identified those things: The industrial base of the two cities, the ethnic heritage of the two cities.

Both cities I think are uncomfortable with the kind of vacuum of not being important tourist centers. People don't talk about going to Baltimore unless it's to do business of some kind or to go to Johns

Hopkins Medical Center. But that's changing now, I might say, and this is a disadvantage to both cities because I think they haven't been held up in the spotlight to the extent of the Chicagos and San Franciscos and Bostons and New Orleans and even some smaller cities around the country.

But you don't have here Baltimore's host of problems, and I guess if there's any message that I can bring, it is the extraordinary success that we see in this older eastern city in turning itself around from a tawdry, unattractive, dirty, dull city into what is rapidly becoming one of the most dramatically exciting, sparkling, dazzling cities in the United States. Hardly anybody in Baltimore or elsewhere, least of all in our neighboring city, Washington, would have ever thought it was possible.

I feel like every city in the United States ought to be taking the kind of look at itself that maybe this inquiry could commence, but into a really deep, broad, comprehensive examination of its resources and of its needs and of the yearnings of its people. We really have seen the most radical change in the forces operating within the American city in the last decade, perhaps than I think we have ever seen before in the history of the American city, and most of this redirection of forces is favorable to the city.

The fifties, sixties, and seventies marked the flood to the surburbs. All kinds of things happened in that period which were biased against the center city, and in favor of the suburbs. We discovered the new method of transportation called the automobile, following World War II, and that was almost impossible to accommodate easily in the center city. On the other hand, we financed its reach into the suburbs with massive highways and one-way streets and encouraged the subdivision of land.

We abetted it further by recognizing the deterioration of the center city, and, therefore, virtually withdrawing financing from the neighborhoods around the center city, because how could you possibly finance deteriorating neighborhoods when you're going to make long-term mortgages, and there wasn't long-term life visible.

And so the long-term mortgage and the low financing rates went to the suburbs, and the cities had to fight for what they could get in money to buy a house or to rehabilitate it. This contributed to the deterioration of the center city, as did the traffic congestion. That's changed, and it's changed in many ways.

First of all, I think we will see a change over the next two decades in the transportation bias. I think that most public money will be going into funding and supporting new methods of transportation rather than new highways, and it's important that that happen because we need better public transportation, and we'll get it.

Between now and the end of this century we'll see new, clean, fast forms of public transportation better than we have known, because the combination of the energy shortage and the surge of strong economic and residential development in the center cities will call for it.

The change in lifestyle in America is an enormously important thing that isn't always adequately identified, but in the fifties, sixties, seventies, the American dream was the half-acre lot and the picket fence and the station wagon and outdoor barbecue and the golf course. Almost all of that has changed.

The American dream today for millions and millions of young people, and some not so young, is the center city—rehabilitate, restore an old house, save the transportation and the energy and gas costs, a Volkswagen instead of a station wagon, a pair of skis instead of set of golf clubs, of making bread in an oven—instead of a picket fence and an acre of lawn.

And this is supported by the new demographics of today. Today 65 percent of households in America have two people working, 50 percent have no children. It's a very different world than we had 20 years ago, and that world finds life more easily lived in the center of the city.

I'm not talking about Milwaukee, because it would be presumptuous of me to. I don't know Milwaukee that well, but this is true of American cities in general, I think, that these younger people moving into the city are less cautious, more courageous, don't care if all their neighbors are exactly like they are, will move to neighborhoods and restore houses where 20 years ago none of us would have dared move, and they're happy there and they get along with people of different economic levels, different race, different social, cultural base.

This breaks open the old segregations, and that's an important change. The monstrous segregation of people by race has begun to disappear. It's been the most ad hoc form of segregation that's continued, because just the whole culture supported it.

But gradually, and now rapidly, it is being discovered that black people and while people can live very comfortably alongside of one another, and the suburbs are flying open. Over the next decade, a black family will be able to live wherever it wants in the American metropolis, not because it is being tolerated or endured, but because it doesn't matter.

We've seen that in Columbia, where we've been 20 percent black from the beginning, and I think that openness of the community racially has been important to the growth of the community.

As a matter of fact, a survey made in one of our villages showed that 63 percent of the people listed as most important or important in their decision to move to Columbia, the racial openess of the city. As this happens, and middle-class black people who haven't had the opportunity of a suburban dwelling find it, this opens up opportunity of a suburban dwelling find it, this opens up opportunity for young white people seeking the center city. And through this process I think we're going to see a different kind of integration in our cities over the next 20 years.

We've also done a lot to our cities that's better than we recognize, because it's happened in pieces. But if you look back over 30 years at what's happened in most American cities, it's easier and quicker to get downtown today than it was 25 years ago in almost any American city. There's better highways, better parking. There are more interesting public squares. The office building development is substantial. There are more jobs downtown in most cities today than there were 25 years ago.

Institutional development of all kinds—hospitals, universities, concert halls, convention centers—these places are a very important part of the mosaic of the center city.

And as one looks forward to these things working in favor of the center city, I would make the bet that the soft value in real estate by the turn of this century is the suburban house, and dynamic values in real estate will be found in the center city.

Even retailing is beginning to discover that there are possibilities in the center city that have been ignored for the last 30 years. It's been a steady process of the weeding away of retailing out of the center city.

We went to Boston with the belief that there was a deep yearning on the part of people for what we'd call a festival marketplace at the heart of the city: a place where people could gather, all kinds of people. A marketplace is the most democratic place in the city. There are office buildings, hospitals, theaters, universities, all dealing with a slice of the people. But the marketplace deals with everybody, rich and poor, black and white, rich—old and young. They're all there, and there's an excitement about everybody being there.

I think that there's a longing away from the prepackaged, cellophane-wrapped distribution systems that we have developed out of our efficiency, and a yearning to deal with the informality, the smaller merchant, the owner behind the counter, the odors, the color, the life, the activity of the marketplace.

We believed that when we went into Boston, and there was enormous skepticism, almost unanimous skepticism, on the part of responsible, caring people. The banks didn't believe it could work and didn't want to finance it. The merchants didn't want to believe it would work and didn't want to come.

And we had an almost impossible task in leasing what was the first stage of Faneuil Hall Marketplace. There are only 75,000 square feet, and 2 months before the opening we were only 50 percent leased, which is why we then reinvented the pushcart and one-page lease and the 1-week term, in order to attract the merchants. And it worked. In 6 weeks we built and leased 43 pushcarts which, with all of their color, obscured the vacancies and created a sense of festival. One hundred thousand people came that first day to our amazement, even though we were optimistic.

In the first year, 10 million people came to that little marketplace, which had an enormous impact on the spirit of Boston.

We then opened the second stage 1 year later and the third stage 1 year later than that. After the third opening, Kevin White, the mayor of Boston, said to me: In 1976, when you opened the first phase of Faneuil Hall Marketplace, there were fewer hotel rooms in Boston than in 1960. He said that today there are 10,000 hotel rooms trying to be built in Boston. They won't all make it, but many are making it. There must be three or four hotels under construction in Boston now.

And at the same time, when we went into Philadelphia, there was this same disbelief. Milwaukee looks lovely and clean and prosperous compared to either where Faneuil Hall Marketplace was or Market Street East in Philadelphia, which was a worn out, dirty, filthy street with an abandoned department store on one corner and the typical merchant had these loud-playing radios blaring out on the street.

And a few weeks before the opening, Stockton Strawbridge, owner of one of the two department stores that we were connecting with this

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retail center, said: "You know, Jim, I go into these board meetings and people are saying to me, 'What kind of an egg are you laying there'?" Of course, if you're a developer you've got to be optimistic forever, so I said: "Stock, I'll tell you what's going to happen. Your business is going to increase 10 percent the first year."

Well, he got up from behind his desk and he came around and he said: "If that happens you're the hero of merchandising." Well, we weren't the heroes of merchandising, but their business increased 34 percent in the first year and they have had the highest volumes since the opening of Market Street East that they ever had in their history.

Now, if you altered that for inflation, they wouldn't be as high as they were in the old days, but it's been a fantastic impact on an absolutely wornout part of this city.

And now it's been expanded to a second stage, and we're already working on a third stage, and over 10 years it will extend six blocks in Philadelphia.

So this is the kind of revitalization that's occurring, and in Baltimore the experience has been even more extraordinary. We were worried about going into Baltimore because it's nowhere near as big as Philadelphia and Boston, and it's got Washington 35 miles away, which pulls away a lot of the power that might be available to Baltimore.

The Baltimore inner harbor was a disaster—a mess of broken down wooden docks, rats, and filth. But unlike Boston where no one believed, because of the success of Boston and Philadelphia everybody in Baltimore believed, which kind of made one nervous.

But we opened Harbor Place on July 2, 1980, and in its first year it drew 18 million people to the center of Baltimore.

There was a referendum that we had to win and we were opposed by the Italian restaurant owners who were six blocks away. But their business has boomed since we opened 11 restaurants and 40 eating places on one day. Their business is up 20 percent.

When one looks at the forces at work that are favorable to the center city, I really believe that every single town and city in America has resources that are not being used that, if marshaled, could meet needs and yearnings that aren't being met.

We had a tiny little experience, but an interesting one. I was born and raised on the Eastern Shore of Maryland in a little town called Easton, which is quite a good town. Sixteen miles away there's a town twice the size called Cambridge, which has always been looked upon as being down at the bottom of the Eastern Shore, and they know it.

Three businessmen came to see me one day and said: "You know, it's just terrible. Here Easton has everything and we don't have anything. We don't have a hotel that's decent. We don't have a decent restaurant. Something ought to be able to happen in Cambridge."

So I agreed to go down and ride around Cambridge with them, and I did. And I said: "You've just got to think not in terms of what your disaster is but what your resources are." And if you looked at Cambridge, it had these enormous resources. It's the only town on the Eastern Shore on a big body of water. The Eastern Shore is nothing but water, but Easton isn't even on the water.

Cambridge is on this huge river with all kinds of yachting and fishing opportunities. It has the Blackwater Wildlife Refuge right

next to it, one of the largest wild waterfowl refuges in the country with all the growing interest that there is in that kind of thing.

But most of all, right in the middle of the town was a little creek, and that little creek was an industrial wasteland. It had the potential of creating a waterside village in the heart of that town, with the interest that there is in that kind of thing, and with the people who want that kind of life. Here you could have a townhouse or an apartment with a dock at your door, and it was just obvious that this town had great resources that it wasn't using.

And, by gosh, the city and county and business community put together a huge sum of money for that little town—$130,000—to analyze their resources and lay out a plan and a program to develop them. I think it's going to happen.

Lowell, Mass., a city that had an unemployment rate of over 20 percent a decade ago, now has the lowest unemployment rate in New England. It's under 5 percent. The business community and the city government went to work on Lowell. It was a disaster because it had once been the beginning of the textile industry in the United States. The textile industry had grown and moved south, and there were these huge textile buildings, empty.

And they've worked on it. They've come to put those buildings to use.

The textile industry was there because it could use all these canals for water power. Now they've made those canals, which were just wasteland a few years ago, into a beautiful park system through the town. They had the good luck of attracting Wang Laboratories, which has been a godsend to them.

Burlington, Vt., was an old city. It's now a bustling city. The Sun Belt's exaggerated. The Sun Belt isn't as good a place to live as New England or Baltimore or Milwaukee or Minneapolis. There are more diverse opportunities in living in the so-called Frost Belt than there are in the hotland in the South, which doesn't know anything about water and skiing and mountains and the life that we have available to us.

I don't know what the resources of Milwaukee are, but some are obvious: The good government, the ethic heritage, the clean city, your big league athletic teams, and the whole cultural life at the center of the city.

But beyond all that, in big ways and little ways, my bet is that an organized look at what are the real resources of Milwaukee—what's their highest potential and how can they be evolved and put to work—would produce surprising results. I think it takes some people in the community who have to kind of detach themselves for awhile and look at it. I just don't think it comes out of committee meetings.

I think that everybody thinks they know too much about a town they live in, but there are good people here who, if given the assignment of working studiously at identifying the undeveloped resources of Milwaukee would produce surprising things. Then a development plan and program for evolving that potential could be unfolded. I think this of Milwaukee as of any other city. Surprising new life could be generated.

If these things are approached on a big enough scale, there's astonishing interaction between the pieces. One of the things that we suffer

from in the American city is doing things in little pieces. I guess the best lesson of the other way is what has happened in Baltimore. What's happening in Baltimore today is not a sudden explosion. It started over 20 years ago when we first created the Greater Baltimore Committee and created a planning council and produced a plan for downtown. At that time it was going to be a 500-acre plan, and the business community itself set up a planning council to do that. It didn't bring in Victor Gruen to come in and say what ought to happen.

After that planning council worked a few months, a staff person came to see me one day in 1956 or 1957, and said: "This is hopeless. We haven't found one single business that plans to expand in downtown Baltimore. How do you make a plan for a new downtown of a city when it seems to have no future?"

And that is when we changed and decided to build the largest and most dramatic, durable project that could be done. That led to a 33-acre project, which was pretty big, which was Charles Center.

When that plan was produced, the man on the street said, "My grandchildren will never live to see it." But the business community paid for that plan, produced it, gave it to the city, got the bond issue through, and Charles Center is now largely built. That raised the expectancy of the city. When a new mayor came in, he wanted to do the inner harbor, which was 250 acres. Between those two plans that's almost 300 acres of the center of the city that were planned and programed for development, which meant all the possibilities of the city had to be contemplated and accounted for; and, therefore, there came a supportive interaction among these pieces.

In the last 15 years, in this city that wasn't going anywhere, there have been built on those 250 acres, 21 office buildings, 3 hotels, 2,000 apartments, a new science center, a new convention center, a new aquarium, a new retail center; and that in turn has caused expansion of the University of Maryland, expansion of the Maryland Institute or Art, expansion of Peabody Conservatory of Music, expansion of Walters Art Gallery—just whole new life in the center of that city. I really think the scale of the proposal could make people see possibilities that you just can't see on a block-by-block approach.

One last thing which illustrates something to me about cities. I've been called to Washington lately to talk about enterprise zones, and enterprise zones are having a kind of instant appeal. I don't mean to say that they may not do some good, but to me they're entirely the wrong approach to the American city, because what the enterprise zone is saying is "Let's find a way of subsidizing industry into the city. Let's buy industry to come some place it doesn't really want to come," and that isn't the right way to work a city.

When I was going over to one of these meetings, I called the guy in Columbia who is in charge of industrial development. We have added over a thousand business and industries and over 30,000 jobs in Columbia in 14 years, and we open one or two new industries a week now.

Representative REUSS. These are almost all private sector?

Mr. ROUSE. All private sector, and most of these are very small. We've had some exciting business things like a big General Electric plant, but today most of it is under 5,000 square feet; and I said, How do we get them? And he sad: Because we have space available. What

a small, new industry wants is space where it can come in with minimum expense and set up and start to work. Then, as they grow, they go into new buildings.

And most of our growth today in Columbia is the growth of little industries that start there and then grow from 5,000, to 10,000, to 20,000, to 100,000 feet. I don't mean that happens every time.

So I said to him: "Look, I'm going over to Washington to talk about enterprise zones. What would happen if in the city of Baltimore right near downtown, a modern industrial park was created that had all the advantages that we have here in terms of roads and available space and landscaping? How would you view that and its chance for success?"

Without a moment's hesitation, he said: "It would be the hottest competitor we could possibly have, because the city has so many advantages over us. The executives are going to be close to other executives downtown. The workers are going to have lots of places to eat where there are other workers. They've go a huge work force close at hand. They've got much better transportation. They would be the toughest competition we could have."

Well, now, this is the way a city needs to work, to make itself competitively attractive to produce an environment where industry wants to come.

And then the one big missing thing is marketing. When cities try to mrket their own lands, they typically don't do as well. They don't have the energy, the imagination, the skill, the force, and the direction. They're not out there selling.

In the early days of Columbia we had more people working on the economic development of business and industry in Columbia than the State of Maryland, the city of Baltimore, Baltimore County, and Howard County—which is our county—all put together. We were out there working and selling that land and bringing in business and making deals and getting financing and providing space and meeting the needs of business and industry.

Somehow it seems to me that if a city like Milwaukee, with all the advantages it has, had competitively attractive industrial areas, and a vigorous marketing force out selling that space and built space to attract new industry, it would be at the top of the list in selling industry in the city.

Thank you. I talked too long.

Representative REUSS. Well, thank you. You were invited here because I was confident that, without saying very much about Milwaukee, you could give us a good deal of guidance, and you certainly have.

I do have a few questions to ask. You mentioned earlier in your presentation Johns Hopkins University Hospital. Has that been a factor and is it a factor in Baltimore's economic well-being, as well as a great humanitarian place?

Mr. ROUSE. I would say it's probably been the most important resource in the city. A survey made a little while ago showed that more people rented hotel rooms in the city of Baltimore because of Johns Hopkins than any other single generator of traffic to the city.

And, of course, there have been so many aspects to it. It's the medical school and the hospital and the school of public health in one part of

the city, and then the university itself in another part. It's just been a marvelous resource, and that kind of an institution is a great resource for a city.

Representative REUSS. How many people a year are affected by Johns Hopkins?

Mr. ROUSE. I don't know. Next to Bethlehem Steel it's the largest employer in the city.

I might say that Baltimore today—this will surprise you—is becoming a tourist city. A friend of mine in New York told me the other day that he had got the shock of his life. His secretary was going on vacation and he said: "Where are you going?" She said: "I'm going to Baltimore." And he said: "I don't believe it." And she replied: "Yes, I am. I'm taking a week's vacation and I'm going to Baltimore."

There's just a lot to do today that wasn't there before.

Representative REUSS. One of the ideas on the table before this series of hearings is health services as a means of job building and prosperity building.

The fact is that Milwaukee does a number of things in the health field extraordinarily well—coronary surgery, an eye clinic, and so on. Yet it's probably fair to say that we aren't putting it all together as Johns Hopkins has, and maybe we are overlooking something there.

Your own experience includes both using a revived downtown as the fulcrum for city revival, and using industry directly as a means of building economic growth.

In Columbia you've attracted a great deal of industry. In Baltimore, the principal emphasis was on the downtown as a center of the city. You also mentioned Lowell, Mass. and Burlington, Vt., where the primary emphasis was on industries and jobs—in both cases using moribund textile mills.

Mr. ROUSE. New industry, too.

Representative REUSS. Milwaukee, of course, with your much appreciated help, is now doing great things about its downtown. Whatever happens in overall economic development of our community in the generation ahead will obviously be greatly helped by what's been going on downtown.

The reason for these hearings, however, is that that isn't enough. Man does not live by downtown alone, though it's nice to have one if you live in the city.

One of the many good things about Milwaukee's downtown revitalization was that, probably for the first time, it saw the putting together of a coalition of government at all levels. Business, industry, and labor all worked together very successfully.

Would you think that some extension of that cooperative principle may be reinforced by academia? Could our universities, which didn't play any primary role in the downtown, address the overall problem of economic development?

Mr. ROUSE. I don't have any experience that would affirm that. I mean, there's some rationality in that support, but I do believe that you have in place the two most important ingredients. One is very good, efficient local government, which is outstanding. Baltimore does, too—that's crucial.

And second, you have the Milwaukee Redevelopment Corp. You've got the business community organized to take a strong initiative on behalf of the city. There's a difference of day and night in cities that have the equivalent of a Milwaukee Redevelopment Corp. and those who don't—and not many do. Only a handful, really. There's Allegheny Conference, Old Philadelphia Corp., and Greater Baltimore Committee, Milwaukee Redevelopment Corp., and a few others.

When the business community is prepared to take an initiative role in making things happen—not just a promotional role, but to really be a leader, a developer in effect, as the Greater Baltimore Committee was with respect to the center city—that's what makes the so-called government-business partnership capable of functioning.

I would think that if that partnership, in examining the potential resources, saw in the academic field opportunities that weren't being developed—as you've mentioned in health, for example—it might well find the way to promote and develop and organize and induce a better expression of that academic social involvement on the voluntary private sector. Because the nongovernment, nonbusiness private sector has a huge role to play in the country and in the city, and isn't always playing it.

Representative REUSS. I suspect that the farther one gets from hardware and the closer one gets to software, the farther one gets from bricks and mortar and the closer one gets to ideas, the more difficult it is for even a smooth working, voluntary coalition, government-labor-business, to achieve results.

Thus it's no great feat, and most great American cities have done it, to build a performing arts center. We've done it very well. It was one of the first things we did.

It is a great deal harder and more complicated and takes more energy, ingenuity, and perhaps luck, to achieve a largely bricks-and-mortar downtown revival, because it isn't all one piece of brick and mortar.

It's much more complex than that, and it's private sector. It isn't one semipublic or eleemosynary building that you're building. I suppose to get to the third stage, when you're talking about jobs in general and new industry, is perhaps the most difficult of the three categories.

But what you're saying, I think, is that while you can't sum up any evidence that that's the way to go, that from where you're sitting it looks as if Milwaukee has an excellent track record on the business, government, and labor cooperation of the downtown, and a prolongation of that might just work in the broader field of economic development.

Mr. ROUSE. It has a lot of things to sell that need to be packaged for sale—every one of these things that we have mentioned, whether it's the quality of government, the favorable economic condition of the city, its location on the water. The whole ethnic heritage is a resource you may not be using adequately.

When we were in Baltimore 10 years ago, we started the city fair. It was started as an idea of the mayor's to have a city fair. A lot of people scoffed at it.

And that city fair, which is in the middle of September for a weekend, draws on Friday night, Saturday, and Sunday, 2 million people. All of Baltimore comes together at that city fair.

Well, that, in turn, stimulated the ethnic festivals, and we now have 17 ethnic festivals in Baltimore during the summer; and it's everybody. It's German, Polish, Lithuanian, Latvian, Ukranian, Italian, and Afro. These things are just marvelous expressions of the city, and people come. It develops personality and spirit, as well as business, in the center of the city.

And all of these things that you were talking about, like the Performing Arts Center, aren't just cultural events. They are also jobs. People have to work there to do things. The mass of life and growth reinforces, interacts, and increases the vitality of a city.

I don't think you can approach a city along one path and accomplish anything that's very important. I think that hopefully Grand Avenue will have—if it follows the success of the other center city ventures, which I think it will—a very stimulating effect on downtown beyond just retailing, but that's not enough.

Back to the university. I guess I resisted saying this, but I think I should. Universities have contributed very little to the thinking about the American city. Even the universities with urban affairs centers are so academic and detached and unreal, and know so little about the real workings of the city. Even in Boston, I don't think the university makes a major contribution to the city, because it doesn't understand the city—doesn't understand the way it works, its people, its processes, its arithmetic, and its business. It tends to be very academic and removed from the city. Too precious.

Representative REUSS. I agree with you, and I think part of the blame for that lies upon people like myself in Congress who have traditionally encouraged the urban university to be very "gung ho" on what was called the urban problem sector.

Now, that was important—health delivery and so on—but it really caused the aloof spirit as far as the nitty gritty of how does a small business open up or become a slightly larger business and what makes the city tick.

Is that what you're saying?

Mr. ROUSE. Yes.

Representative REUSS. I think that has to be true. Finally—and I hate to say finally, but I know that you have some business to do and we have an excellent panel of our movers and shakers waiting to testify.

Finally, I would like to address what has been regarded by a great many people as an adverse factor about Milwaukee; namely, the fact that we haven't grown very much. Like most cities, we lost some population, although not nearly as much as many other cities. Isn't that factor far from being a liability? Isn't it, maybe, a saving grace? Can't we now have a better chance of attracting industry which finds places like Silicon Valley in California or Route 128 around Boston overcrowded in terms of housing for both scientists and workers?

Mr. ROUSE. I couldn't agree with you more. I think this lament over the loss of population of cities is just ridiculous.

First of all, most of the cities have less population because the households have declined in size. Most cities that have lost population, have increased households at the same time.

We were crying just a while back about the terrible congestion at the heart of the city. We needed breathing room. We needed to get

more space. You couldn't deal with housing problems because of the congestion, and I think that the opening up of some of that gives breathing room. In the same way, I think that industrial obsolescence and vacancies create an opportunity for new use of land if we can only see those things that way.

I think the greatest opportunity in New York City is the South Bronx, because of all that opportunity to step in, if they would do it on a large enough scale, to create a whole new lighthouse community. But they're just wringing their hands over the trouble. Forty thousand vacant dwelling units—what an opportunity for a city as crowded as New York.

I don't think that that lament matters. Much more serious is that the metropolitan areas of the United States are stopping their growth and losing population on the whole. This radical change occurred in the last decade. The rural counties, which have been losing population for 40 years to the urban counties, all of a sudden reversed themselves. In this decade, the rural county showed the growth in America. And a rural county is a county that has no place as big as 25,000 people. That's a little place. That's a little county, and it showed the growth.

The urban counties' growth went almost to nothing, and the metropolitan areas of the United States on the whole showed no growth. The growth was in the small cities, the small towns, and the rural counties.

That to me says something about the search by people for community, for quality of life, for better places to live. The center city, in its restored, revitalized condition, creates more of a life of community for people than a sterilized subdivision which has nothing but one class of people and limited facilities, and you have to get in a car to go anywhere.

I think that the future of the inner city is the real future in the American city, and I don't mean downtown by that. I mean the whole area around it.

Representative REUSS. Sir, you have been a breath of fresh air. We're most grateful to you with your contribution in the form of Grand Avenue and with your contribution in the form of ideas this morning.

You're learning more and more about Milwaukee, and be assured that you will always be an honorary citizen of this community, and we hope you will come back often and help us some more. Thank you so much.

We'll have a 3-minute recess so that the next panel may gravitate toward the witness table.

[A brief recess was taken.]

Representative REUSS. The committee will be in order.

We're delighted to have a very high-level panel representing Milwaukee business and industry. I'm happy that many of you gentlemen were able to hear that extraordinary tour of the horizon by Jim Rouse, Columbia, Md., just now.

Our witnesses as they're seated at the table are Bob Krikorian, chairman of Rexnord; C. R. Whitney, chief executive officer of Allen-Bradley; Francis Ferguson, chairman of Northwestern Mutual Life; Hal Kuehl, chairman of First Wisconsin National Bank; Gerard Hankins, president of North Milwaukee State Bank; John Roethle, management consultant; and Burt Zien of Zien Mechanical Contractors, Inc.

Our panel includes an extraordinarily diverse cross-section of the activists of the Milwaukee business and industrial community. It includes, I'm proud to say, Fran Ferguson, who is the leading mover of the Milwaukee Redevelopment Committee, and who has done so much to make the dream of a revived downtown come true. Every member of the panel has been outstanding in his civic contribution.

We'll now proceed, and I would envision that this panel would stay in place until about noon, when we adjourn for lunch. I'm aware of the fact that the members of the panel are some of the busiest people in Milwaukee, and to the extent that any of you needs to depart, feel free to excuse yourself, though I hope that most of you will be able to stay for the entire hour and a half, because I would welcome interchange between members of the panel.

Most of you have given us prepared statements which I've had the chance to read, and they're all extremely to the point and very helpful. Under the rule and without objection, they're received in full into the record.

I'm now going to recognize each one of you and ask you to proceed in your own way.

Bob Krikorian, would you lead off? No particular order. This is just where you're seated.

STATEMENT OF R. V. KRIKORIAN, CHAIRMAN, REXNORD, MILWAUKEE, WIS.

Mr. KRIKORIAN. Thank you, Mr. Chairman. I'd like to follow up on your comment about the wonderful flavor of Mr. Rouse's overview for all of us to consider as background in this meeting, and to thank you for the opportunity to take part in this discussion on Greater Milwaukee's socioeconomic future. I say socioeconomic because our discussion must go beyond economic considerations. Everything we talk about here touches on all segments of our community.

Today I want to concentrate on one basic idea. My conviction is that labor, government, business, and, perhaps, media must work together in the critical days that are ahead of us. And to me working together should be our common denominator.

Mr. Chairman, in your recent address at the 100th anniversary of the Wharton School of Finance, you emphasized that government should be facilitating cooperative efforts by business and labor to improve productivity and foster industrial development.

The word "cooperation" is a key ingredient in getting on with the job at hand.

I remain convinced of the integrity of our American system and its capability to solve its own problems. The missing ingredient is a high degree of understanding and cooperation between people and their institutions.

We need to change the adversarial behavior of many of us in business, in government, in unions, and in the media. We simply haven't learned how to work with each other in the public's best interest.

For years many of us have been talking among ourselves about our own problems. In fact, we've become experts at recognizing the shortcomings of everyone except ourselves.

Let me mention eight issues that concern us at Rexnord:

First, the need to increase the level of technology by stimulating research and innovation. Business growth—and more jobs—depend on a consistent flow of new products. Business must invest a higher percentage of its sales dollar on new product development.

Second, all of us in Milwaukee must realize that our real competitive pressures are worldwide—not just domestic.

Third, many Milwaukee companies, including Rexnord, have major product lines that have matured and face keen competitive pressures in the marketplace, and as such we all share similar problems: Shrinking profit margins that are totally inadequate, relatively high labor costs, and restrictive work rules.

But having said that, I would hasten to remind my business colleagues that there is nothing in our labor agreements that we did not agree to sometime in the past.

Finally, management decides to leave the community because it is convinced the product line cannot stay and survive.

Fourth, a lack of dialog between government, unions, and business on how to strengthen our economy and improve our standard of living.

Fifth, the great opportunity for management to use employee ideas in improving product quality—teamwork—and profitability. Today we're listening more to our employees who do understand these relationships and want to become more involved in these efforts.

Sixth, the heavy responsibility of adequately funding all future retirement benefits.

Seventh, our ethical obligation to treat all people fairly, especially our employees and future job applicants.

Eighth, and finally, the need for increasing business support to our communities, in time and dollars; openly encouraging our employees to become involved, loaning managers where needed, and starting public dialog on community problem solving.

Now, I'm sure all of you share many of these issues, and most likely you can add many to the list.

Mr. Chairman, there is plenty to talk about. What I'm proposing is a basic strategy to help us solve the common problems facing Greater Milwaukee.

A strategy of cooperation—which will require a new spirit and new coalitions among Milwaukee's people and their institutions. The idea of cooperation may strike some of you as obvious and even superficial; but if we pass over it lightly, we risk forgetting that cooperation will require us to change the way we act and to get involved for the betterment of the entire community—not just our own narrow interests.

Although this strategy is not complicated, it will be different from the ways many of us thought about involvement in the past.

The strategy of cooperation calls for all of us—business, government, labor, and media—to meet on a personal level and find our common ground. By that I mean, let's identify those problems we all share, those problems that bind us together, and then let's start working on their solutions.

As one example, several companies, including Rexnord, have just been asked to meet with the Conference of Mayors to develop citizen action programs for private sector employees throughout the country. There are 800 cities represented in the Conference of Mayors.

In addition to changing our adversarial postures, we in business have some specific things to work on.

We need to become familiar with the difficult process of public policy formation.

We need to become politically intelligent by developing personal knowledge of how our system really works.

We need to encourage our managers to take an active role in the communities where our plants are located and to consider their community involvement when we evaluate their performance.

And we need to help all of our people realize the importance of their role as citizens—of the obligations as well as the power they have as active participants in our society.

There are plenty of materials to assist us with these tasks, and I'm always pleased to share those we're using at Rexnord.

This "cooperative strategy" I've described seeks to influence future events in a positive manner without lobbying for any single piece of legislation. What we've been doing isn't good enough for the future. We must change to better serve the public interest.

Before we implement new public policies, government, business, labor, and media must forge new personal and cooperative relationships; and we at Rexnord stand ready to assist in this process.

Representative REUSS. Thank you for an inspiring statement, Mr. Krikorian.

Mr. Whitney.

STATEMENT OF C. R. WHITNEY, PRESIDENT, ALLEN-BRADLEY, CO., MILWAUKEE, WIS.

Mr. WHITNEY. Thank you, Mr. Chairman. I want to express my appreciation for this opportunity to address the committee.

I'm going to direct the main thrust of my comments to a concept that I believe will undergird the establishment of a higher technology base for industry in Wisconsin. I believe it to be one of the vital building blocks that Jim Rouse mentioned earlier.

If we set aside some of the obvious effects of the current worldwide economic conditions and examine the historical experience of Wisconsin as an environment for manufacturing industries, the record is not too bad.

It is true that a number of manufacturers have seen the necessity for some relocation of activities to areas with more favorable energy cost or availability of a better tax environment and labor rates; but most industries that have been here a long time have expanded here.

In the case of Allen-Bradley Co. during the past decade we have established some new manufacturing facilities in other States for competitive or energy-related reasons.

On the other hand, we have spent considerably more money in increasing our investment in Wisconsin. We have established major new manufacturing facilities in Cedarburg, New Berlin, Oak Creek, Milwaukee, and Richland Center, and are currently engaged in a major rearrangement of our primary Milwaukee facility to improve our productivity. It should be obvious that we are heavily committed to Wisconsin.

Further, and I think this is important to note, this is our corporate headquarters and we intend to keep it here.

I believe that other testimony to this committee will include more definitive remarks on the impact of community services, taxes, government regulations, quality of life, and so forth.

However, I believe it is important that those of us in the business community continue to take every opportunity to make our needs and concerns in these matters known to our elected representatives. Obviously we also need to persuade the public that the creation and maintenance of a good business environment is in the best interests of all of us.

Although the business community has sponsored a number of committees, task forces, and ad hoc groups, we could still do more, and we will.

As we address the issues of technical and social changes that are needed to improve the business environment, we also need to address the issue of doing a better job of selling Milwaukee to the rest of the world.

In my view, a good place to start in this image-building program would be in the State legislature in Madison. The persistent anti-business attitude which seems to emanate from that body is certainly not conducive to developing and retaining business in this State.

In addition, we need to project a better image to the rest of the world to attract to Wisconsin the engineers and educators skilled in the teaching and implementation of high technology.

My personal experience is that, while it is quite difficult to interest highly skilled people in moving to the Milwaukee area, once we have them and they live here awhile, it's very difficult to get them to move elsewhere.

Milwaukee's a good place to live, a good place to raise kids, and we ought to be able to do a better job of selling it.

Now, I would like to address my remarks to the need for establishing new technological foundations for the manufacturing industry in Wisconsin.

Milwaukee is well-known throughout the world for its heavy machinery manufacturing. Indeed, it is these industries which have provided much of the employment and economic base for the development of this area which we now enjoy.

However, we have not kept pace with the emerging higher technologies which are building industries and employment in other areas of the country. Therefore, I would like to propose actions that will allow us to make a stronger effort in this direction without reducing our traditional interests in and support for the State's established industries.

Other communities in this country have established enviable records in support of new high technology cooperation between emerging new industries and the university research and teaching staffs. Specifically, I refer to that environment which has grown up in California around Stanford University, known as Silicon Valley, and the Draper Labs and M.I.T. in cooperation with the electronics industry on Route 128 in Boston.

Specifically, I propose much closer cooperation among industry, university, and government to create an environment for development of new technology such as automation, power electronics, genetic science, marine biology, and others.

During the past 2 years Allen-Bradley has assembled and established a significant new series of laboratories in our Milwaukee facility directed toward factory automation particularly employing the technology of power electronics and systems.

In addition to the assembly of a strong technical staff, we have begun dialogs with the several universities for the purpose of stimulating and strengthening their activities in these related technologies.

Cooperative relationships among the universities of Wisconsin and industry and government are traditional. The Wisconsin idea of extending university resources to serve all citizens and interests has been long established. However, this activity is best known for its contribution to agriculture and to the food processing industries. Unfortunately, we are not as well known for our contributions toward supporting technology in new manufacturing industry.

There are, however, two activities recently established at the University of Wisconsin-Madison that are significant moves in the right direction.

At University of Wisconsin-Madison, the graduate school has established an organization known as the University-Industry Research Program, or UIR. It is the mission of this organization to provide a vehicle for the Madison faculty to interact with industry and government so as to provide practical access to the university's research resources, and to facilitate technology transfer.

More recently a group called Wisconsin for Research has been established for the purpose of assuring a permanent basis for cooperation between academic and economic interests for the long-range benefit of the State. The university and the members of WFR will also benefit from it. Both of these organizations represent excellent moves toward improving the transfer of technology from the university environment to useful production in Wisconsin industry.

In a more narrow vein, Allen-Bradley and other manufacturers with similar technical interests have recently formed a consortium working through the engineering experiment station with the University of Wisconsin-Madison to provide funding support for specific lines of research concerning electrical machines and power electronics. These funds will be utilized by the college for research programs and experimental investigation in this field of technology.

It is important to know that the funding is not short term. It's committed for 4 years. In so doing we provide stability and continuity in the efforts of the engineering school to obtain and retain good teaching and research staff.

To summarize my key points on technology development: First, I believe industry in Wisconsin has a superb potential resource in the universities of our State, which by virtually any measurement are the equal of those institutions normally considered the leading high technology centers.

Second, we and associated companies have developed a model for cooperation between industry and the universities, one that has the

potential to provide needed funds for the university and an equal potential to provide State industries the new technologies they need. This arrangement should be developed and expanded, and it is our intention to try to sell this concept to our industries in this part of Wisconsin.

The University of Wisconsin has made significant contributions in working with the agricultural industry, but has not until recently been oriented toward liaisons with other types of industry. I believe that university officials should be more aggressive in seeking to contribute to the well-being of the State's economy by pursuing research arrangements with industry that would benefit the university, the industry, and the people of Wisconsin as well.

On the technology issue, government at this point ought to be watchful, but in neutral gear. The role of legislative bodies should be simply to recognize the potential benefits of industry-university cooperation and provide enabling legislation where required.

Before closing, I would like to reemphasize my concern regarding the frequent antibusiness signals sent out by our representatives in Madison. Decisions faced by a business when moving or expanding are fraught with risk at best. Obviously, the prudent businessman or woman is not inclined to add to that risk by choosing a location where business is not welcome, especially when, as is the case in the United States, there are many other options.

Thank you for the opportunity to present these thoughts.

Representative REUSS. Thank you, Mr. Whitney.

Mr. Ferguson.

STATEMENT OF FRANCIS FERGUSON, CHAIRMAN, NORTHWESTERN MUTUAL LIFE, MILWAUKEE, WIS.

Mr. FERGUSON. Thank you, Mr. Chairman. I'm really delighted to have an opportunity to appear before you and put a few thoughts in the record.

First, it's obvious that Milwaukee needs a healthy economy overall. We're essentially a capital goods industry town, and, of course, we suffer in a capital goods industry community when investment declines, and especially when that is accompanied by a real depression in the real estate business.

I think that Federal policies have reduced our financial liquidity over the decades for business, farms, households, and also for the entire financial community; brought out unprecedented interest rates and inflation rates, and have totally destroyed at this point the long-term debt market.

I can well remember, as a side thought, Henry, when I first joined Northwestern Mutual Life, that if we had a half-a-point change in interest rates in a year's time, it was rather revolutionary. Now it happens between 1:15 and 1:30, or even more, and it's very disrupting all the way around.

I think we have to reexamine many of our basic financial assumptions, and particularly that of the monetarist theories that are going on today in the Federal Reserve. I think that Reagan has done a tremendous amount to turn this country from the weakening trend that

we had over a long period of years, and as far as he's gone, it's been something that we all should applaud. I do hasten to add, for everybody who criticizes the Reagan economics, it's only about 10 days old. We're suffering really from all of the hangover from the last 25 years.

I think we should learn a little bit from some other people in the world—Japan, Germany, Switzerland. If you look at their M–1 money supply compared with their GNP, they have much more money in circulation today than does the United States, Canada, United Kingdom, or Australia.

I always have heard that the Germans are hardheaded and stubborn, but it looks to me like the English-speaking nations of the world ought to come in for their share of stubbornness because they're really killing themselves with the kind of monetary policy they have.

We've had a decreasing amount of money in circulation in relation to our GNP since 1900. If you look at the trend, this is true of all English-speaking nations. In contrast, Germany, Japan, and probably even more appropriately Switzerland to which has had the same government over a long period of time—have been very stable with the amount of money that they have in relation to the GNP. I'm talking about M–1.

I think we ought to really take a look at our policies as far as monetarists who strictly say that if you reduce the amount of money in circulation, you're going to reduce inflation. We sure as hell will, but with a big depression. You will not, however, necessarily increase inflation if you increase the money supply if you do it in certain ways.

Now, we have been very concerned about this at Northwestern Mutual. We're obviously very, very sensitive to inflation. The only thing we do sell in many ways is money, and it's been depreciating over a long period of time, and we've been very concerned about this.

We have committed a fair amount of the resources of the corporation to studying this problem, and it's a very complicated one. It's not one to air at a public meeting. We would love to sit down with the staff of the Joint Economic Committee on a technical basis and share some of these thoughts with you if we might.

Now, turning to an entirely different subject, I guess now I have to wear my Milwaukee Redevelopment Corporation hat. It's been a thrilling experience. This started about 10 years ago. It was announced jointly by the mayor, Henry Maier, and myself at a press conference.

It took us a long time to get underway because we really didn't know what we wanted to do, but up to this point there's been a heck of a lot happening. Hyatt Hotel was a direct result of some of the work that the MRC had done, not that it was responsible for the hotel specifically. Goodness gracious, that's the greatest kind of activity you can have, if something spills out of the activity of a quasi-public attitude.

Obviously, the Federal Building that you were very much involved in also came in many ways as a direct result of the effort of the Milwaukee Redevelopment Corporation. Now we have the mall that Jim Rouse referred to earlier. And incidentally, that was a magnificent statement. Everybody in this community and particularly the press—and I know there are a lot of you here—ought to really take a

lesson out of that statement. This was one of the most positive statements I've heard about anything in my life, and Jim, if you're still here, congratulations. It was just a fabulous statement. We all ought to be more positive about our community. We've got a lot to be positive about.

Representative REUSS. Mr. Rouse is out looking at the Grand Avenue right now, but I'll see that he hears about this.

Mr. FERGUSON. Good enough, and I think it's going to be just as successful as he does.

There's been wonderful cooperation between private and public sector in this whole effort of Milwaukee Redevelopment Corporation. To date, we have raised something in the neighborhood of $12 to $14 million from the private sector. This has gone into not only supporting our day-to-day activities, but also the Grand Avenue Mall.

We approached this because we thought that the business community should not be asked to give a contribution. But we think that we are creating something that will give them an investment that will give, not a return that's very competitive today, but at least will return their money to them with a very modest return of 2, 3, or 4 percent. Then maybe we can have a revolving fund continue.

The city did something that is just unheard of in the United States. It owns, or will own, the public facilities in the Grand Avenue Mall. It is going to be repaid the moneys that it, just like a developer or a private sector, is going to receive out of the profits of the center, and will take that in the form of rent rather than a fixed rate. These are very unusual kinds of activities for a city, but I think it should be complimented tremendously.

The next step obviously is going to have to be some downtown housing, and we think that within a relatively short period of time we will be coming forth to the city and to the public with some plans for housing in the downtown area.

I'd like to propose one thing though that I think would be very helpful. Having been in the real estate financing business and industry financing for a long time, I notice that one of the great pulls for industry into the Sun Belt is tax freezes. This has been judged to be unconstitutional in this State.

I think this is one of the shortest sighted postures that a State can possibly take. That is our competition, whether we like it or not. You have to accept competition the way it is.

We should position ourselves either through legislation or through a constitutional amendment, to allow the State of Wisconsin to be just exactly as competitive on that score as any other in the country. We can't look at these things in a 2- or 3- or 4- or 5-year time span. We have got to look at it in the long run, and in the long run the attraction of more industry, commerce, and business is going to increase our tax revenues. In the short run maybe you forgive some.

Another thing that I think is very important is the collaboration between labor, industry, and schools for developing the right kind of students.

Let me give you just one example of this that I think is very important: welding. A lot of welding schools—and this is something

that government programs have contributed tremendously to—are training people in an outmoded activity, because robots can weld a great deal better than people can, and they don't get tired. That's the wave of the future. We should not be training a lot of welders.

Still our educational institutions—and business is just as irresponsible in my book on that score—do not look ahead at what kind of preparation should be done, but rather they're looking at right now. If they're needing a welder, we've got to have more welders. We encourage the schools to do it. Are you going to need more welders 10 years from now? That's the question we should ask ourselves.

I think some of these things that I've suggested, Mr. Chairman, might help. This is not a simplistic problem, nor will it respond to simplistic solutions. It's been a long time in the making, but I think we can win if we keep the right kind of an attitude and don't get fighting against ourselves. Business should not fight with government. Government is crazy if it is fighting with business, and the same is true with labor. It's all a common problem.

You know, it's one thing to have a $12-an-hour job. It's another thing to have none, and I think a lot of this sort of thing is going to have to come into the thinking of people.

Thank you very much. I appreciate the opportunity.

Representative REUSS. Thank you. I knew that you would emit some sparklers, and you did.

Mr. Kuehl.

STATEMENT OF HAL KUEHL, CHAIRMAN, FIRST WISCONSIN NATIONAL BANK, MILWAUKEE, WIS.

Mr. KUEHL. I am delighted to appear before the Joint Economic Committee to discuss the economic future of the Milwaukee metropolitan area. The continued economic health and vitality of this area is a key factor in the future of our bank. As local bankers and citizens my colleagues and I are deeply committed to developing and promoting a favorable business climate here.

As my remarks develop, I'm sure you will see a redundancy with all of the previous speakers. I think it will be obvious to you that those redudancies consider really a consensus on some of the major problems that confront us.

Much has been written and said about the decline of business activity in the Midwest coupled with continued predictions of our early economic demise. To paraphrase Mark Twain, I believe that "the reports of our recent death have been greatly exaggerated."

The most pessimistic assessment of midwestern economic prospects mistake recent cyclical developments for the long-term trend. Since early 1979, the American economy has been virtually stagnant. While some industries have expanded throughout this period, those that historically have been more cyclical—autos, housing and capital goods—have declined sharply and remain depressed. Due to the importance of these industries to the Wisconsin and Milwaukee economies, it was inevitable that the prolonged national growth slowdown would affect us severely.

In my view, those who read our local economy's disappointing performance in the 1979–81 era as the first sign of a prolonged decline are alarmists. They mistake cyclical development for secular trend. The Nation's growth will eventually strengthen, although perhaps not for another 6 to 12 months.

As that happens, it will have a very salutary effect on economic activity in our area. We should not lose sight of the fact that our economy is far more diversified than many other States, and that, over the decade, the Nation will need the capital goods we produce so well.

Certainly there are issues that need to be addressed within our State. We need to foster a greater cooperation between business and labor, reduce confrontations between business and Government, particularly in the State legislature, introduce tax policies that favor industrial expansion rather than hinder it, better use our educational resources to prepare our work force for the future and to assist our industries in technological development. You can see this laundry list has been covered by some of the previous speakers. This list could be expanded at some length.

I suggest, however, that these issues and others which bear on our ability to compete successfully with other States are best addressed in the local arena. Since I presume this committee's interest lies primarily in those national issues and policies where Congress can have a direct impact on economic environment, the balance of my remarks will be directed toward them.

Ultimately the future health and vitality of our local economy depends upon the long-term growth of the Nation's economy. The driving force behind the growth of our regional economy has been and will be the state of business and financial conditions in the United States and in the world economy.

Consequently, the most important steps that you can take to help Wisconsin and Milwaukee are those which promote a return to lower inflation, to gains in productivity, to the rebuilding of the Nation's capital stock, to healthy financial markets, to lower interest rates, and to the efficient operation of basic market forces in the economy.

In my opinion, these key goals can best be achieved by the kind of economic policy currently in place—slower, steadier money stock growth, a reduction of Federal tax rates, restraint in Federal spending, and reduced Government regulation and control of business.

These steps will eventually restore the strength that our economy demonstrated in earlier times. In my view, by moving forward aggressively with this type of program, Congress can make the greatest possible contribution to the well-being of the local economy.

Some specific points on national policies that affect our local economy are as follows, and I've listed four of them.

The first is sewers. We face a tremendous overhang of potential taxation on the local economy, mandated by Federal clean water standards and timetables predicated on the Federal Government providing 75 percent of the required financial support. The Government is now rightfully having second thoughts about its capacity to fund, which should trigger a reconsideration of the timetables, if not the standards themselves.

Two, exports. Our local economy has historically been an important exporter of industrial, mining, construction, and agricultural equipment. One particular problem in this area is that foreign competitors seem to consistently receive stronger financing support from their governments, thus improving their competitive position at local industries' expense. We must continue negotiations to reduce these inequities and, failing that, provide government-sponsored financing to keep our exporters competitive.

Three, deregulation. A great deal has been written and said about regulation. The fact of the matter is that it is inevitably cumbersome, time consuming, and expense. Congressional support for less regulation in all facets of business life is highly desirable. We must reduce the regulatory burden to the point where it strikes a reasonable balance between costs to business and benefits to society.

Finally, what I've categorized as "tinkering." There seems to be a tendency on the part of Congress to continually enact programs and take actions to change the economic environment. I suppose this is in response to the perception that things need to be done. In fact, the woods are full of examples where such tinkering has boomeranged in serious uncontemplated problems.

If I may be so bold as to suggest that the Congress concentrate on enacting, supporting, and encouraging the economic programs referred to previously, a period of more stable business environment where the ground rules are not constantly changing may enhance industrial development and economic prosperity substantially.

I am personally optimistic about the local and national economies. However, I hasten to add that there is no painless, quick fix. The healing process will not be even and will be fraught with problems.

If we are to succeed it is essential that business, government, and labor join together in support of the economic program which basically reduces Government's involvement in both our personal and economic lives.

Thank you for the opportunity to appear.

Representative REUSS. Thank you, Mr. Kuehl. We've heard from Wisconsin's largest banking institution. We'll now hear from one of our newest banking institutions. Mr. Gerard Hankins, president of the North Milwaukee State Bank.

We're proud of the job you've been doing, and we'd like to hear from you this morning.

STATEMENT OF GERARD S. HANKINS, PRESIDENT, NORTH MILWAUKEE STATE BANK, MILWAUKEE, WIS.

Mr. HANKINS. Thank you. North Milwaukee State Bank is one of Wisconsin's newest and smallest.

I appreciate the opportunity to discuss my views on the local economy from the standpoint of minority business problems and possible solutions to these problems. Healthy enterprises in Milwaukee will enhance the economy by expanding the tax base for the city budget as well as the GNP, reducing the unemployment rate and channeling funds within the community.

Many major corporations on a national level have, for the most part, has been supportive of minority businesses and have established programs within the corporations to encourage the purchase of goods and services from minority businesses.

The Federal Government has developed the 8(a) "set-aside" program, which requires each Federal agency to reserve a certain number of Government contracts for minority businesses. Also, I have personally recommended minority businesses to certain local Federal Government agencies for the purpose of providing services. It is my understanding that this program is under review for possible elimination.

Problems facing minority businesses in Milwaukee:

One, traditionally, minorities have lacked the primary sources needed to obtain capital. They have been unable to accumulate or acquire the necessary wealth or to develop sufficient income levels to underwrite the cost of starting a new business. As a result, most minority businesses are heavily leveraged, which leaves no room for error in pricing, inventory, acquisition, et cetera.

Two, the high cost of borrowing money—prime currently at 18½—is prohibitive to most minority businesses. Even if they can generate a 10-percent return on investment, the high interest rates contribute substantially to eliminating the possibility of a profit.

Three, it is very difficult to obtain financial backing from lending institutions unable to discern revenue and profit growth potential of the business, coupled with a reluctance to capitalize minority enterprises due to a potential financial "risk or loss" factor. Much of the latter has been related to business management problems. Many minority businessmen lack the ability to develop cash flow plans, and have difficulty analyzing their monetary meaning, in keeping the business operational.

Four, capital formation to fund growth of minority businesses is very limited. Because of this problem, many businesses fail within the first 3 years.

Five, minority businesses today, specifically minority contractors, are severly hampered by the great difficulty in obtaining bonding. Bonding is critical to the bidding process for government and private contracts. Bonding is directly tied into the financial strength of a business and, because most minority contractors are heavily leveraged, this restricts the amount of bonding for which they are qualified. As a result, the larger the job potential, the less the opportunity for minority contractors to compete because of lack of bonding and lack of financing to see the job through to completion.

Six, I have too often heard of the insensitivity of Government agencies toward minority businesses.

Changes needed to foster minority business growth:

One, there should be State, county, and city commitment for purchasing goods and services from minority businesses to the extent that they will reach out and aid in the creation of businesses to provide services. This can be accomplished in part by working with such entities as North Milwaukee State Bank, Milwaukee Community Development Corp., Milwaukee Economic Development Corp., Milwaukee Minority Chamber of Commerce—it's also named the Milwaukee

Black Chamber of Commerce—Opportunity Industrialization Center, and Milwaukee Urban League. These sources are available to aid in seeking out existing businesses to service meaningful contracts and to assist in identifying individuals currently employed in government and private industry capable of beginning and managing a new business.

Two, there must be commitment on the part of local government, mayor, county executive, and elected bodies of the State legislature, county board, and common council. These entities should set annual goals and encourage individuals charged with the responsibility of purchasing goods and services to achieve predetermined goals, maybe tied to an incentive program.

Innovative thinking is needed to offset the "lip service" we have been experiencing, which has given us limited results. Instead of taking my recommendations and converting them into positive tools for improvement of the system, I am sure you will encounter 100 or more reasons why they will not work. Is it any wonder, then, that the black business community continues to be weak and ineffective in turning the dollar over more than the traditional one time?

Three, the corporate community must be encouraged to work with minority businesses to develop a more positive and economically sound community which will in turn benefit the overall business community in the city of Milwaukee and the State of Wisconsin.

Four, it is my understanding that there is a program underfoot by the State department of business development to encourage private corporations in Wisconsin to assist in developing a MESBIC. The MESBIC is a minority small business investment company. It is hoped that this will be given full support by local government because a funding source for minorities is vital for minority businesses to survive the problems of equity capital and the bidding process, and so forth.

Five, an independent, State-financed bonding corporation should be set up to provide the necessary insurance to minority contractors and other minority businesses in order that they may equitably compete in the bidding process.

Six, minority business people should be given the opportunity to acquire spinoffs of major corporations. Although I said "given," I don't mean given. I mean that they should have the opportunity to bid to acquire spinoffs of existing profitable divisions because they no longer fit their overall goal. Similarly, the opportunity should be available to acquire businesses going up for sale because the principals are retired or nearing retirement and there are no family members willing to continue the business.

Seven, I feel strongly that the 8(a) setaside program should be allowed to continue, as elimination of this program would have devastating effects on the minority business community.

I realize that there have been some problems, and my feeling is that those problems could be resolved and the program could stay in place.

Last, although not in my prepared text, I would just like to give a plug for the Third Street Redevelopment project, which hopefully will get some type of Federal and local support. We think that the Upper Third Street Redevelopment project is a—can be a continuation of the development in downtown Milwaukee.

I'd like to thank you for inviting me to speak today.
Representative REUSS. Thank you, Mr. Hankins.
Mr. John Roethle, a management consultant.

STATEMENT OF JOHN D. ROETHLE, PRESIDENT, ANDERSON-ROETHLE & ASSOCIATES, INC., MILWAUKEE, WIS.

Mr. ROETHLE. Thank you, Mr. Chairman. I appreciate this opportunity to present my thoughts as president of Anderson-Roethle & Associates, Inc.

We are a general management consulting firm that compiles and maintains the only comprehensive statistics on Wisconsin mergers.

Therefore, I plan to take a little bit different tack from the rest of my esteemed colleagues here who have done such a thorough job of going through the other aspects of the economy, and I'm going to concentrate strictly on the merger area.

Wisconsin has been experiencing a steady loss of Wisconsin businesses through acquisition by out-of-State and foreign firms. The first 9 months of 1981 resulted in a $1.833 billion outflow of Wisconsin businesses based on the total sales dollars of acquired firms versus out-of-State firms acquired by Wisconsin firms.

The highest, by the way, in the 5-year period ending 1980 was $706 million. So this is a very substantial increase.

Representative REUSS. Is that the highest in history?

Mr. ROETHLE. We only started keeping the figures since 1972. So we only go back about a decade. In the last decade, yes, $706 million was the highest.

Now, keep in mind, too, Congressman, that inflation has inflated these figures. Therefore, they're probably the highest figures. But if you put it in real dollars, it may be different.

With the anticipated sales of Ladish and Clark Oil in the fourth quarter—and as you're probably aware, they're having a meeting at Ladish this morning—the loss could reach over $3 billion for this year. This will be the highest outflow in the history of Wisconsin, to the best of our knowledge. The combination of General Foods purchase of Oscar Mayer, Armco's purchase of Ladish and Apex Oils purchase of Clark Oil will have created this new record.

This outflow is definitely a trend which is not expected to change in the near future based on our evaluation of the basic causes for these mergers.

The primary cause of this outflow is the undervalued assets of many Wisconsin firms. We've developed a table taking the 10 top firms in the State of Wisconsin based upon the financial briefs of Wisconsin corporations by Baird, and have laid out the market prices and the book values so that you can see what undervalued assets we're talking about. Four out of the ten are moderately to substantially below the book values.

A second major cause is the environment in the State of Wisconsin, which is caused by the tax climate, the labor situation, and, certainly, the degree of legislation that we have in this State.

Even though I don't have it in my prepared text, I'd like to speak to that regulation. A lot of us do not realize that over the past 5 years

we've averaged 350 bills through the State legislature per year. Now, for the average person, it's hard enough to read one bill and see how it applies to his business. It's another thing when you have to read 350.

We are having more clients today who are having difficulty trying to determine where they're in violation of laws that they didn't even know about, much less those that they were conscious of. So we think this is a major problem.

Now, the latest tax bill signed by Governor Dreyfus on July 29 certainly substantially improved the treatment of capital gains. However, both the inheritance and the property taxes are still major negative factors in comparing us to competing states.

Wisconsin is also the 11th highest in the United States as far as its percentage of union labor to the total labor force. It is above the national average of 26.8 percent. High wages by themselves are not a major deterrent when they are directly related to high productivity or special skills. However, it is a major deterrent when the high labor rates are applied to semiskilled or unskilled positions.

These labor rates have been a cause of Wisconsin's businesses selling out and also a strong influence on Wisconsin businesses moving large portions of their labor force out of the State, even though I'll certainly turn to my esteemed colleague, Bob Krikorian, in stating that we caused it to a great extent because things were so good we certainly didn't fight very hard and try to maintain management's prerogatives, too.

The heavy union influence is primarily a result of the automobile industry and heavy capital goods in Wisconsin. This influence has carried over to other industries in the State because of the influence that labor exercises over the politics of the State. These politics have a direct effect upon the degree of regulation on business and the environment for new capital formation.

Now, what are the effect of outflow of business? We've monitored the inflow and outflow of business in Wisconsin for almost the past 10 years and find that there is a long-term direct effect on the economic base in Wisconsin as a result of the overall loss of headquarters.

It's amazing how many of these executives have gone through our offices after they have left their particular firms. This outflow of business results in a decline in the overall quality of life. We have found that a number of direct results can be substantiated.

One, a reduction in the amount of expansion in Wisconsin.

Two, reduction in the involvement in, and commitment to, the Wisconsin communities.

Three, reduction of management and, therefore, the loss of upper-income, well-educated Wisconsin executives.

Four, the loss of many professional services.

Five, the movement of the major banking functions out of State to the new corporate headquarters.

The decision to expand Wisconsin businesses is affected by an emotional attachment and loyalty to the State, along with other rational factors.

We always have a tendency to talk as we would in a university atmosphere—and by the way, I agree very much with our esteemed colleague who started out this session this morning. I'm not quite sure how much the universities really add to the economic climate, because

I don't think they've got a real handle on what business is all about.

Numerous Wisconsin firms have expanded their facilities in Wisconsin, including the labor forces, in spite of the tax climate and higher labor rates; but that's because we like it here. It is a good place. Many of us do feel very strongly about this State. Long term, I feel very positive about this State, too. This expansion was done primarily because of their loyalty to the State and their commitment to the community. We have heard many times, we like it here and we want to support the State.

However, this loyalty and emotional attachment to the State is lost when the firm is sold. Management in out-of-State headquarters places less emphasis upon the value of the business to the community. Their decisions are made based much more upon the rational decisions required to provide the best return on investment. While community activities may be pursued to gain community support for other business needs, the effort will be directly proportional to the return to the company.

Second, out-of-State management results in a reduction in the involvement in, and commitment to, the Wisconsin communities. An analysis of the annual reports of the numerous nonprofit organizations and civic groups in the Milwaukee area indicate proportionately less activity by executives from companies owned by out-of-State firms. More importantly, studies have shown that they have less involvement as board members. This is demonstrated by both their attendance record and participation in committee work.

We have found that the degree of emphasis placed by the corporate headquarters, and their example on community involvement, is somewhat proportional to the amount of time and commitment given by its personnel to the communities.

Second, and we think this is just as important, the corporate policies relative to moving managers reflects upon the managers' involvement and commitment to the community. Where there is little likelihood of a manager moving to another community in the next 5 years, there is greater potential for his involvement in civic activities. This is primarily due to his greater personal identification with that community.

Therefore, while we have seen the degree of involvement by managers from out-of-State firms to be far less percentagewise than those of managers of Wisconsin-owned firms, we can see the possibility that this disadvantage may moderate as the major firms reduce the amount of movement of their managers in the future.

Thus, we believe that community involvement is directly related to the perceptions of the manager of his tenure with the community rather than necessarily directly related to the type of ownership of his firm.

Reduction of management and, therefore, the loss of upper income well-educated Wisconsin executives: Three recent examples immediately come to mind where a substantial number of executives were lost to this State as a result of mergers. I think of G. D. Searle's acquisition of Will-Ross, Reliance Electric's purchase of Utility Products, and Eaton's purchase of Cutler-Hammer.

The presidents and a major portion of the key executive staffs of these firms have left the organization and, in many cases, left the State. In Cutler-Hammer's case, a major portion of the key ex-

ecutives have certainly left the State. The president is now in Montgomery, Ala. The executive vice president is in St. Louis. Both of those gentlemen, by the way, Congressman, would still be here if they could have found opportunities to match their skills, but they were unable to.

A number of the Will-Ross executives have also left the State, as have a few from the Utility Products management.

A key reason why most of these men left the State was due to the fact that they were unable to find vocational opportunities within Wisconsin for their level of skills. Generally, most expressed a preference for remaining in Wisconsin. A healthy byproduct of the displacement of these mergers could have been the availability of key talent for the formation of new firms.

Many of the executives who were displaced came to our firm to seek out business opportunities within the area. Unfortunately, there have not been enough opportunities to fill their needs within the timeframe that they allotted, causing them, therefore, to move to available opportunities in faster growing areas.

The loss of many professional services: Many professional services including accounting, insurance, public relations, advertising, management consulting, and legal, are lost when a firm is acquired by an out-of-State firm. This is due primarily to the practice of moving many of these specialized services to the corporate headquarters shortly after the merger.

This location shift probably has the greatest effect upon our local insurance agencies and legal firms, as they are usually locally owned operations, rather than a division of a larger, national organization. Every professional firm can provide a list of major customers lost over the past 10 years through the acquisition route.

And finally, we have the banking industry, which has probably lost more business over the past two decades than most other organizations from the merger activity. They've tried to make up for this lost business in a number of ways, the first of which is to seek out growing small businesses to fill the places of the more mature businesses being acquired. However, in many cases, this has not been possible with the pace of the merger activity. While some of the financial services are retained, such as the payroll accounts and lockbox service, most of the commercial accounts, money market activities, and trust services are lost to the banks serving the corporate headquarters.

Therefore, a number of the major banks have pursued investing a portion of their funds out of State. This has actually weakened the availability of capital in the State.

Thus, there are definite disadvantages to the losses of businesses through acquisition by out-of-State firms, but I want to mention here that we do not think that this is any worse than, of course, the jobs we're losing because of the existing firms who are moving operations to the South.

Now, we also want to say that all acquisitions do not adversely effect this environment. We can think of many good examples of that. Phillip Morris' acquisition of Miller Brewing certainly improved the operations of that firm, increasing the amount of investment and

employment in the State of Wisconsin. This had to be a net improvement in the overall economic climate.

Armco's purchase of NN Corp., while it is a little bit early to make any definite statements, actually increased the amount of business at this point, due to the fact that Armco moved its entire financial services headquarters to Milwaukee, and there has been an increase in employment.

Finally, Amstar's purchase of Milwaukee Electric Tool has resulted in continued dramatic growth of Milwaukee Electric. Interesting, though, while there has been some actual growth at Milwaukee Electric, the vast portion of that expansion was done out of State. That has been due primarily to the taxes, the political climate, and the labor situation.

Finally, our conclusions. We conclude that there will be a continued trend of the outflow of major mature Wisconsin businesses to out-of-State firms. We do not believe that there are any real advantages to any Government action to stop that outflow. We believe that in some cases the undervalued assets are due to a lack of aggressive management, and thus a stockholder's only hope for a fair return on his investment or an improvement on the operations may be through the tender offer by some, hopefully, better-managed company. Thus, to have the Government place artificial restrictions upon mergers may have dilatory long-term effects.

After carefully evaluating the future outlook for Wisconsin, we believe that the best course to follow to increase our vitality is in the area of developing an environment that is conducive to new business formation and growth, and the retention and expansion of our present businesses. This must be a coordinated effort between our government legislatures primarily on a State level, our educational institutions, and private industry. This can be achieved by:

One, providing educators with nominal grants to assist in the development of new businesses that will be owned and operated by private investors. Students must be exposed to the creation of a new business as a viable alternative to working for a structured, large organization.

Two, we must educate both politicians and educators—and I'll add the media to a great extent, too—on the nature of risk taking and its benefits to a community in the form of the creation of new jobs. Excellent examples of very fast-growing firms in Wisconsin are Cray Electronics in Chippewa Falls, Tombstone Pizza in Medford, and Marquette Electronics here in Milwaukee.

Representative REUSS. Will you, just to enrich the record at this point, give us a sentence or two on each one of those three operations. Cray Electronics, what do they make? How many do they employ?

Mr. ROETHLE. It's a spinoff of Control Data that moved to Chippewa Falls. Control Data is in the computer business. Cray Electronics is also in the computer business—very large, specialized computers.

In 1976 it had zero sales. Today, it has over $60 million in sales—dramatic growth. I do not know their exact employment.

Tombstone Pizza again has grown very large. It's multimillion, I think in the neighborhood of $30 to $60 million. I do not have the exact figures, but it's very large. It has grown very nicely and it's over a good portion of the United States as far as its market.

Marquette Electronics has had that same type of dramatic growth.

Representative REUSS. What is its employment here?

Mr. ROETHLE. Marquette? I don't know about Marquette. I can get information on all of these very quickly for you.

Representative REUSS. I would be happy.

[The following letter was subsequently supplied for the record:]

ANDERSON-ROETHLE & ASSOCIATES, INC.,
Milwaukee, Wis., October 27, 1981.

Congressman HENRY S. REUSS,
Chairman, Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR CONGRESSMAN REUSS: I appreciated the opportunity to appear before your Joint Economic Committee regarding Southeastern Wisconsin's economic situation. I am enclosing the information you requested at that hearing regarding the specific growth figures for the three companies that I mentioned.

	Employment	
	1976	October 1981
Medford Cheese—Tombstone Pizza Corp., Medford, Wis	225	600
Cray Electronics, Chippewa Falls, Wis.[1]	[2] 90	[2] 550
Marquette Electronics, Milwaukee, Wis	175	330

[1] They plan to build an additional facility in Rice Lake, Wis., which will open the 2d quarter of 1982 and employ another 36 to 40 people by the end of the year.
[2] Wisconsin employment only.

We hope that this information provides some further substantiation to my comments regarding the importance of emphasizing the incentives for small business. While the loss in jobs by our major Wisconsin industries is noticed by all, few people recognize the contribution of the numerous small businesses located in Wisconsin.

Sincerely,

JOHN D. ROETHLE,
President.

Mr. ROETHLE. Three, the reduction of the tax disincentives on a State level. This is especially directed at the inheritance tax and the property tax.

Four, recognition of the creation and development of a strong business as a very important contribution to a community and the State. The media and society in general must support this concept if it is to work. It must not be the black sheep in the family, which it has been for many years.

I have taught for 13 years at Marquette University, and I can remember going to faculty parties where business professors were virtually shunned.

I might add one thing to that, Congressman. I would like very much to recommend that we have one course in economics, that includes the understanding of financial statements, as a required course for graduation from any State university. I cannot understand how we can be educated people today in this complex society and not know how to understand a balance sheet and income statement.

The result of these programs will be to provide an attractive environment for both the efforts of entrepreneurs and the capital of investors to create more businesses, more jobs, and a stronger tax base.

I thank you, Congressman Reuss.

[The tables referred to by Mr. Roethle follow:]

WISCONSIN INFLOW-OUTFLOW

[In millions of dollars]

Year	Inflow	Outflow	Net
1976	270.20	145.30	124.80
1977	262.60	411.60	(49.00)
1978	701.72	989.65	(287.93)
1979	1,331.80	930.55	416.25
1980	1,146.00	1,852.80	(706.80)
1981	495.00	2,320.00	(1,833.00)

10 TOP FIRMS IN THE STATE OF WISCONSIN

[Based upon the financial briefs of Wisconsin corporations by Baird]

	Market price	Book value	Debt-to-equity ratio	Return on investment (percent)
Kimberly Clark	$63.13	$57.32	0.78	14.8
Allis-Chalmers	15.88	53.41	1.31	7.4
Clark Oil	37.00	15.89	1.14	22.4
Rexnord	15.63	19.64	1.01	11.1
Jos. Schlitz	14.88	11.20	.96	9.0
Johnson Controls	26.00	18.20	1.05	11.0
Pabst Brewing	16.38	34.44	.53	4.6
G. Heileman Brewing	28.75	9.70	1.30	34.7
Trane	22.13	23.80	1.01	16.8
Bucyrus-Erie	19.50	19.10	.60	12.3

Representative REUSS. Thank you, Mr. Roethle.

And finally, Burt Zien of Zien Mechanical Contractors.

STATEMENT OF BURT ZIEN, CHIEF EXECUTIVE OFFICER, ZIEN MECHANICAL CONTRACTORS, INC., MILWAUKEE, WIS.

Mr. ZIEN. Congressman Reuss, I welcome this opportunity. I think that your visit here in Milwaukee is a very crucial and very important visit. You have one more year to go in the Congress, and much——

Representative REUSS. Fifteen months.

Mr. ZIEN. Fifteen months, and much hinges on what you and the Joint Economic Committee do in the next year as relates to the quality of life of this country.

So I as a businessman in this community welcome you and wish you well for the next 15 months.

I previously sent to you when I first received your communication, a study that I had made on economic development in the State of Wisconsin in the next 20 years. I will not repeat it. I just want to comment on this for the record. You have this study in your file, and I wish you would look at it.

Representative REUSS. I would just point out that it will be included in our record of official proceedings.

Mr. ZIEN. It was a study I made and submitted to the Vocational Administrators of Wisconsin, at the statewide convention in April of this year. It relates to the economy, the transmigration of people, population, demographics, the resources of the State, and any other considerations.

I'm going to confine my remarks to two areas. First of all, I want to speak as a small businessman, and then, extemporaneously, I want to speak about the Third Street redevelopment program that Gerry Hankins referred to at the end of his remarks, which I and many others have been very much involved in in the past 5 years.

But as to my prepared statement, I'm going to differ with some of the leading and outstanding businessmen of this community in their evaluation of the economics of the Milwaukee, Wis., and national communities.

I've given a lot of thought to this, and it's not easy for me to say some of the things I'm going to be saying, but I think they have to be said.

I am a small businessman in construction in the area of plumbing, heating, and sheet metal. Our family-owned company was started 52 years ago by my father, who was a laborer and a journeyman plumber. He had four sons who eventually became the operators of his small business that he started in 1929 just before the depression hit.

My company is bigger than some, but it's smaller than big. I come before you in a straitjacket. I have handcuffs on my wrists and manacles on my feet.

Well, that may sound a little dramatic, but I'm talking about the status of my business, the status of the small business and large business that exists in this community today. We are in terrible trouble. I'm afraid to face it.

It is said in Washington that inflation will be reduced by high interest rates. It's ironic that by increasing the cost of living with high interest rates we decrease our cost of living. By curtailing economic development because of high interest rates, presumably we're going to encourage economic development.

Washington encourages high interest rates, high energy rates, high housing prices, and high food prices because of its policy regarding high interest rates, which presumably is to diminish inflation.

In my busness and all small business, the savings and loans, the banks of this community, along with the poor of this community, we are all in the same boat. We all have difficulty surviving in this economy. Many of our businesses are approaching desolvency. Many have had to go into bankruptcy in the last couple of years.

This unique philosophy that expensive money is better has taken away our construction market, has curtailed housing construction, new plant construction, and old plant revitalization; and it's true not only in the construction industry. It's true in practically all businesses and industries of this country today, small and big.

This philosophy has brought our city and State to the precipice of insolvency today, has curtained city, county, State, and Federal revenues, and trapped the country in a sea of quicksand.

Not only has Washington taken away the market we need to employ and to pay our employees, Washington is increasing the Federal budget—contrary to what you read in the press. The Washington rhetoric is that we are cutting domestic programs, and that will balance the budget.

The truth is that the total budget of this country, domestic and military, is being increased and not decreased, with all the cuts being made in the domestic economy.

While simultaneously cutting taxes, which will further increase the deficit, we will require the sale of additional billions of high-priced Treasury bills and notes in competition with banks and savings and loans, which will have to be paid back with subsequent high-priced Treasury bills and notes.

And so we go round and round the Washington high money tree, dancing a mad dance, and not knowing where we're going.

As a result of this, small businessmen or potential small businessmen have no future with the present state of affairs. If we get rid of the high money market we could move, we could sell, we could employ, we could produce.

I have come to the conclusion, from my limited perspective in the plumbing business, that the way to get rid of inflation is not high Federal Reserve money. The way Washington must go, whether we like it or not, is to effect as soon as possible selected major industry wage and price controls.

Industry and labor don't like the bureaucratic wage and price controls, and neither do I. I've got enough problems beside all that paperwork. But controls are better than expensive money because expensive money is taking us nowhere. It's drowning us. Controls are constructive or can be constructive, in the sense that they stabilize the economy.

Controls would diminish the spending-inflation spiral. Controls would calm down the economy. Controls would permit the revitalization of big and small business by minimizing inflation. Controls would open the door to new industry, to high technology development. Controls would increase State and Federal revenue because of increased employment and incomes, and would reduce welfare.

Controls would provide a future for the small businesses that I'm particularly interested in, although I don't set small business aside. It's part and parcel of the whole economy.

And now the private sector could research and develop and look to the future. Now Washington and the State of Wisconsin and the city of Milwaukee and the private sector would constructively work together to build a productive society, instead of fighting over the same piece of the pie—fighting with a government that is our biggest competitor as far as money and finance is concerned.

With increased tax revenues resulting from the improved economy—in preference to borrowed funds, which must be repaid with very high interest, increasing the deficit—Washington will be able to, and must, embark on public works construction to fill the economic and employment gap. We've got to do the things we've done in the past. We have to rebuild our roads. Environmental construction and mass transit are a few of the major projects that could be revitalized.

Washington presently substantially subsidizes oil, gas, and nuclear energy. There seems to be a trend in Washington today to eliminate funds for alternate sources of energy other than nuclear. Washington must resume and develop a new source of energy to recover part of the $90 billion a year that is shipped over to OPEC countries. The events of the last few days further emphasize the great need for a crash program on energy so we're no longer hanging by a thread as to what's going to happen in Egypt, or Saudi Arabia or Libya or wherever.

I suppose I'm going to be accused of advocating pie in the sky and some kind of superficial panacea. I'd prefer to call what I am present-

ing to you, Congressman Reuss, the program that is absolutely necessary to rebuild America, to rebuild the faith of its people and its industry and its hope.

I am old enough to recall the rebuilding of America in the thirties when the bottom fell out 6 months after my father started his business. I was a student at the University of Wisconsin at the School of Engineering.

In those days, while the economy was different, there was high unemployment and low interest rates, deflation—yes, those were different days. But in those days Washington was realistic. It saw the problems of unemployment, of industrial growth. It was innovative and creative. Industry was helped by the Reconstruction Finance Corporation. The elderly were helped with social security legislation. The unemployed were helped with WPA, a dirty word in those days, and maybe still a dirty word like CETA is a dirty word today. Unemployment compensation was another of the programs that make this country have faith in its future.

Today, we don't have any faith in this country's future. I'm talking about the average man on the street. My employees, myself—where are we going? I've got to face the lending market, the non-job market, when I go back to my office in a few minutes.

I am convinced that today the national economic programs, as presented by the Congress and the administration, are negative and destructive. I suppose I could borrow a phrase that somebody said during the Vietnam war, some general, and adapt it to our economy today: "We hurt you to save you." It looks to me like that is happening in our economy today, at least in my particular area.

It doesn't have to be that way. We, in Milwaukee and Wisconsin, with our excellent education and job training systems, our work ethic, our skilled men and women, we are the resources, people and companies alike. We are the resources for economic recovery and revitalization. We are here to do that job, but Washington must remove the interest handcuffs and manacles from my ankles and our ankles.

Wage and price controls will stabilize the economy, reduce inflation, and open up the marketplace. Then and only then will we have hope for the future.

And this is something that can be done very soon. We don't have to wait 10, 15, 20 years. It's going to be a hard thing to do. Very few people are going to agree with us, but I want to take this opportunity to at least give you this concept as I see it from my perspective.

That concludes, Congressman Reuss, my oral testimony, but now I want to talk about something else that's very exciting. I think that something can be done about it today.

For 5 years, myself and Elmer Winter and about 30 people in Milwaukee's inner city have been working on the redevelopment of Third Street—Third and North Avenue—one of the most difficult, depressed parts of our inner city, which is just a few miles from here on the north end of the corridor between the downtown mall and Capitol Drive.

We have made a lot of progress. With the help of Henry Maier, we got the planning grants from the department of city development. We have the program extended. We've got consultants from Washing-

ton, leading consultants of this country who have been consulting with our group.

And we have tremendous leadership. Elmer Winter and I have taken a back seat. We started the thing rolling with the help of Carl Gee, Bernard Ben, who is now head of the Urban League; Gerry Hankins, who is chairman of our finance committee; Edith Finlayson; Larry Reed; Beechie Brooks, who developed the Hadley Park housing project where he's selling $80,000 homes around Eighth Street to south of North Avenue; and Bezelee Martin.

We have met with leaders of industry. For example, we have met with Walgreen's. Walgreen's is very interested and is about to build and open up four pharmacies in Milwaukee's inner city in four different areas. We met with the regional director not too long ago; they're going to do it. Right now, they're making demographic studies. It's being handled by Robert Polacheck. Bob Polacheck is doing the feasibility studies for Walgreen's. They are going to open up stores in Milwaukee's inner city, four of them and, hopefully, one of them will be on Third and North Avenue.

Why are they doing that? When we met with Walgreen's about 2 months ago, they told us that their most successful operations were in the inner cities of America, and they were opening up hundreds of stores—leading all American industry in that endeavor—and they weren't afraid of vandalism. They weren't afraid of theft, and they were going to employ black pharmacists and clerks. This is a very exciting concept. I couldn't believe it when I heard it.

But in addition to that, there are successful people on Third Street, and most people don't know anything about them. For example: Lerner's. They were there during the riots 10 years ago; they're still there. They're one of the few firms that never left. We met with Lerner's. They have a store just north of North Avenue. They would not leave Milwaukee's inner city. They consider it to be one of their most successful operations.

Second is Bezelee Martin. He's a black man, a young fellow, 38–39 years old. Nobody knows him. One day he is going to be well known in this community.

Here's a man who started off in a tannery on the South Side working for General Split 15 years ago. He got involved in food marketing. He opened up a grocery store on Fourth Street and North Avenue, called Leon's Supermarket. It doesn't look like much. Then he opened another one on Fifth and North.

I went over there many times. I went down to his warehouse. He has a half million dollars' worth of canned goods in that basement, and soap and household products. He has contracts with the Federal Government, the VA. He is one of the most successful men in this city, and nobody knows anything about him. He bought the property between Third and Fourth on North Avenue, and he's opened up a couple stores, boutiques. He has his office on the second floor. Not quite as good as my office, but it's a very good office.

There is a lot of ingenuity, a lot of talent in this black community of ours, most of whom are on our committee.

You heard, an hour ago, James Rouse talking about the downtown mall. The very last thing he said was the downtown mall is depend-

ent on the success of the inner city. He also said, if you were listening closely, he just doesn't mean the inner city of downtown. He means the whole inner city. He knows the importance of the redevelopment of Third Street to the downtown mall.

The building of new housing—Larry Katz from First Bank is working in that area with us. He's our adviser.

You've got to also improve the Third Street area, and you must have the resources to do it. This means that Congress, this city, and this State, must provide low-cost mortgage money, low-cost investment money, venture capital. We are about to take off.

Last week I had the most unusual pleasure, along with our committee, of entertaining the entire board of the DNR of the State of Wisconsin. Every member of that board—headed by John Lawton who is the new president who succeeded Cliff Messenger—came to Third and North Avenue and we toured Third Street. We walked up to the DNR site. They're going to break ground on that new building in January of next year. The building's going up for bid. It's going to be the most unusual and most beautiful building you have seen, equally as important as the new Federal building.

So we are on the way. The inner city is on the way, and the black leadership has taken over. They're smart people. They're intelligent. They understand the economics of it. But we do need your cooperation and we need the cooperation of downtown Milwaukee—its banks, its business—to help develop that area, along with the downtown mall. And when we do that, I think we will have achieved quite a bit.

Thank you very much.

[The prepared statement of Mr. Zien follows:]

PREPARED STATEMENT OF BURT ZIEN

ECONOMIC DEVELOPMENT IN THE STATE OF WISCONSIN (1981 TO 2000)

Wisconsin's Economic Development in the coming 20 years must be viewed within the context of the Economic Tidal Currents engulfing the United States—

The Price and Availability of Oil from OPEC Countries.

The Price and Availability of Domestic Oil, Natural Gas, Coal, and Alternate Sources of Energy.

The Economic War between the Energy and Sunbelt States (the Haves) and the Frost Belt States (the Have-Nots).

Productivity and Foreign Competition.

The Negative Balance of Trade with the Federal Government.

I. ENERGY SUPPLY

The supply of energy is the single most important priority for Wisconsin, which must import all its oil, natural gas, and coal.

Future energy availability and its continually increasing costs are a crucial factor in inflation, industrial production and growth, employment and unemployment, education and job-training, social services, war and peace. We are at the crossroads of the Industrial Revolution in this nuclear, computorized age. Should Saudi Arabia, Nigeria, Venezuela or other principal suppliers (such as Canada and Mexico) withhold oil—for reasons of revolution, price, or inventory control—Wisconsin's quality of life would be adversely affected.

In addition to the governmental instability of most OPEC countries, which endangers a steady supply of oil, "The U.S. energy predicament is likely to worsen during the '80's. The major problem is that domestic production of conventional crude oil appears to be on an irreversible downward course because of the steady depletion of proved reserves. At a conservative estimate, U.S. oil production will decline by at least one million barrels per day during the '80's.[1]

[1] National Agenda for the Eighties (1980) p. 141.

The U.S. imports about 7 million barrels of OPEC oil per day—approximately 50 percent of our present needs, sending about $100 billion overseas, an amount equal to 1/7 of the 1981 $700 billion budget. The continuing escalating price of both imported and domestic oil is a prime cause of the shortage of U.S. dollars for domestic growth, high interest rates, and inflation. Equally important to Wisconsin is the supply of domestic oil, natural gas, and coal whose sources are located in a small number of states. Ten states produce 84 percent of all domestic coal and 92 percent of all U.S. oil.[2] Twelve of the fifty states are energy self-sufficient—none is located in the northeast or midwest. More than half of the states are nearly bankrupt. Many of the major cities are pools of unemployment and unrest.[3] The lucky states are swimming in oil, industry, and wealth, because they, like OPEC, are the beneficiaries of at least $100 billion per year in energy income.

Wisconsin is a have-not state, importing over 95 percent of its energy. Wisconsin's total 1977 tax revenue was $6.1 billion.[4] Wisconsin's total earned 1977 income (from all sources including agriculture, construction, manufacturing, transportation, trade, services, government, etc.) was $24.8 billion.[5] By comparison, Wisconsin in 1977 consumed, at today's prices, $6.6 billion for imported OPEC and stateside energy.

Quantity*	Unit cost†	Total cost (billions)
13,500,000 tons of coal	$100 per ton	$1.35
320,313,000,000 ft³ natural gas‡	21.4 per 100 ft³	.684
1,260,000,000 gal of heating/fuel oil	1.30 per gal	1.638
322,400,000 gal of liquified petroleum	70¢ per gal	.225
1,961,863,000 gal of gasoline	1.40 per gal	2.70
Total		6.597

*IBID p. 716.
†Retail pricing as of April 1981.
‡Wisconsin Public Service Commission Bulletin No. 8 November 1980.

Wisconsin must develop a strong conservation program and alternate sources of energy to minimize out-of-state purchases in order to retain energy dollars within the state for economic development. Alternate sources which can be developed now are Solar, Wind, Ethanol, Methane gas and Biomass. Refer to page 8 of this speech regarding the major part agriculture can play in alternate sources.

II. THE ECONOMIC WAR BETWEEN THE FROST BELT AND THE SUNBELT

There is a growing migration of industry and people from the frost belt to the south and west. Between 1970 and 1979, the nation's population increased 8.3 percent. The south's population grew by 14.5 percent and the west by 15.2 percent. Ten states had a growth rate of more than 20 percent—such as Nevada, 43.6 percent—Arizona, 38 percent. The south and west gained 15 million people while the northeast and midwest gained 1.5 million.[6] Population and industrial migration are inter-related. Industrial productivity can be an important factor in industrial relocation. Leaving its old, inefficient plant in the frost belt, the company's new plant, built in the south or west, could be a plant with advanced productivity systems in an environment of low taxes and state surpluses.

"Perhaps more dramatic will be the extraordinary revenues energy-producing states will continue to reap, as a result of the decision to speed up de-control of oil and natural gas prices. These actions will fuel a continuisg spiral in which the rich states get richer and the poor get poorer. State levied severence taxes plus rents and royalties in state oil and gas properties will bring explosively increasing revenues to energy-producing states, most of which already are running substantial budget surpluses. The Treasury Department estimates that the state

[2] The State of the Region, 1981, by North-East-Midwest Interstate & Congressional Coalition, p. 29.
[3] IBID p. 36.
[4] Wisconsin Blue Book (1979–80) p. 821.
[5] Wisconsin Blue Book (1979–80) p. 745.
[6] State of the Region, 1981, p. 5.

of Texas, an energy giant, will collect $1.13 billion in fiscal 1981 from its severence tax on crude oil and an additional $772 million from natural gas." [7]

Many states have small or no personal income taxes, which is a further inducement for migration.

Income tax per capita 1977 [1]

State:	*Tax* [1]
Texas	$5.21
New Mexico	22.39
Nevada	None
Mississippi	55.08
Louisiana	34.08
Florida	None
Arizona	83.01
Wisconsin	245.98

[1] Wisconsin Blue Book (1979–80) p. 824.

While there are persuasive arguments for people and industry to move south and west, there are reverse considerations. The task of accomodating migrating populations will foster increases in City, State and County budgets for schools, roads, police and fire protection, and other governmental services as well as residential sprawl and substantial increases in housing and land values. Wisconsin's population generally remains better educated and trained because of its Universities and VTAE Systems. These educational assets and strong emphasis on manpower training programs are, and will continue to be, crucial to the economic budget. Wisconsin also offers a great variety of cultural activities—an attribute still critical to top-notch business executives making local decisions for their firms. Over time, the perceived advantages of south and west may well lose their luster.[8]

It is well known that a severe water shortage exists in the southwest. Domestic, industrial and agricultural water is the "life blood" of existence and can only become more serious in the population explosion that is taking place now, and will increase in the '80's and '90's.

III. PRODUCTIVITY AND FOREIGN COMPETITION

Higher productivity resulting in lower unit costs is fundamental to our economic well being. Since 1973, U.S. productivity has been alarmingly low.[9]

During World War II, the U.S. air force destroyed major manufacturing plants in Japan and Germany. Both countries rebuilt their economy with U.S. assistance, installing innovative, computerized, robotized manufacturing systems. Their advanced technology with lower labor costs and their special insight regarding high mileage to the gallon, has placed American industry on the economic defensive—to the point where American industry (the founder of mass, automated production) is outsold by foreign manufacturers on our own turf. Over 25 percent of the vehicles sold in the U.S. are of foreign origin. We now implore the Japanese to please ship 10 percent less vehicles to the U.S. to give us the opportunity to increase the sales of domestic vehicles.

The sure way to increase productivity is the direct way—investment in formal Industrial-University research and development programs, re-invention of an updated robotized Ford assembly line and replacement of inefficient unproductive management systems (with retraining programs for the displaced employee). This requires a very diverse array of informal innovations, such as improvements in the application of existing technology, the diffusion of technology and practices developed by one firm, to other firms, improvements in accounting, information systems, management and organization of production at every factory and administrative level. It goes without saying that these developments will require vast investments, Federal support of basic research with stimulating tax incentives, and an environment in which management will take a longer view of investment and research, with meaningful employee and labor union participation.[10]

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[7] State of the Region, 1981, p. 35.
[8] State of the Region, 1981, p. 27.
[9] A National Agenda—The Eighties (1980), page 148.
[10] A National Agenda—The Eighties (1980), page 149.

An important factor in productivity development is the stimulation and participation of small business, which is more responsive to innovation. (More on this point later).

IV. WISCONSIN'S NEGATIVE BALANCE OF TRADE

Another factor affecting Wisconsin's economic development is its negative trade balance with Washington. Since 1930 Federal policies were designed to spur growth and eliminate poverty in the south and west. Billions of dollars were invested for the Tennessee Valley Authority, interstate highways, water and energy projects, military bases, rural electrification, port construction, and the space program. Federal policy was tilted toward development of the south and west. Prior to World War II, economic growth in the U.S. depended almost entirely on the private sector. Since the 1940's, the size, range of activities, and influence of the Federal Government, have expanded dramatically, making it a major force in shaping the national and regional economics. Between 1975 and 1979, the states of the Northeast and Midwest sent $165 billion more in taxes to Washington than they got back in federal spending. In addition, federal tax policies which favor new construction (with fast depreciation and investment tax credits) over maintenance and rehab of old buildings, continue to tilt in favor of economic development in the healthiest areas of the country—the fast-growing resource-blessed south and west.[11]

In 1979, Wisconsin had a negative balance of trade of $2.3 billion [12] receiving back only 74 percent of every tax dollar paid to the federal government. Forty-three states received a higher percentage of federal spending. A comparison with a sampling of other states reveals a substantial difference.

Federal spending—tax ratio dollar of Federal taxes paid

State:	*Amount*
Arizona	$1.21
Montana	1.18
Nebraska	1.05
New Mexico	1.91
Massachusetts	1.13
Mississippi	1.57
Wisconsin	.74

The trends I have highlighted may constitute a threat to the economic well-being of Wisconsin. Unabated, these shifts may erode Wisconsin's productive resources, its industry and its work force. Population loss, high living costs, unemployment, low growth rates of business investment and soaring energy prices are signposts marking the difficult road ahead. It has been suggested that the changing conditions will lead to a second Civil War, pitting the aging Frost belt against the blossoming Sunbelt.

This scenario ignores the basic structure of Wisconsin's economy. There is a high level of regional interdependence. Growing industries of the south and west must rely on Wisconsin's diversified manufacturing products. Wisconsin does not suffer the highs and lows of states with substantial defense, auto, and steel industries.

Water is equally as important as energy. One of the keys to Wisconsin's growth in the '80's and '90's will be its generous water supply for homes. industries, and farms.

The University of Wisconsin's School of Agriculture was instrumental in making Wisconsin's Dairy Industry first in the Nation. The University of Wisconsin is a fundamental resource in the development of new industrial directions and high technology industry. In Massachusetts, the textile and shoe industries died, leaving a string of ghost towns. With the help of Harvard and MIT, the dead industries were replaced in the '70's by advanced technologies. The region is now one of the healthiest in the Nation.

The State Vocational-Technical-Adult Education System, one of the finest in the United States, provides a high level of Skill Training throughout the State, and is a fundamental factor in Wisconsin's industrial and commercial development.

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[11] State of the Region, 1981, p. 37.
[12] State of the Region, 1981, p. 98.

The machinery companies that grew up in southeastern Wisconsin at the turn of the century—in many cases, the high-tech industries of their time—grew naturally from the region's assets—its proximity to certain natural resources, and probably, most important, its skilled work force.[13]

Wisconsin's present industry is the foundation for its economic direction in the '80's and '90's.

Agriculture

Wisconsin leads the nation in the production of dairy products. In 1977, its farm income was $3.1 billion.[14] Sixty percent of this income was from dairy products. The number of farms dropped from 174,000 in 1950 to about 99,000 in 1978 and the average size increased from 135.6 to 191.9 acres.[15] Farms will continue to increase in size and diminish in number over the next 20 years. One of the most dramatic opportunities for change in farm economy will be the development of alternate sources of energy which are particularly adaptable to farm resources. As mentioned earlier, Wisconsin now expends over $6 billion per year in imported energy. Farmers, Coops, and Unions are in a position to become major developers of new local sources of energy—which along with statewide conservation, will help to retain exported energy dollars. Energy can be made from a variety of farm products—both waste as well as cultivated; from the available sun and wind.

The March, '81 issue of Farm Energy Magazine described small experimental projects which can be the foundation for substantial energy developments.

In Winter, California, a farmer produces 50 gals. of ethanol from watermellon juice and cannery waste.

An Iowa farmer runs his tractor with 160–180 proof ethanol produced from corn.

An Illinois farmer produces methane from cattle manure to power an alcohol plant and heat his farm buildings.

Agricultural development of energy must be a major endeavor for the University of Wisconsin.

Small business development in Wisconsin

In 1975, the total number of manufacturing firms was 7,655. Of this number, 6,702 employed less than 100 workers. David Birch, an MIT economist and one of the leading students of small business, found that about 60% of the new jobs created in New England came from companies with 50 or fewer employees.[16]

The small business man is a tenacious individual. He is creative in his production—agressive in his marketing. Innovations are more probable with this special breed of entrepreneur. MicroControl Systems of Milwaukee is a good example of a creative small business (briefly describe his efforts and problems).

The future of Wisconsin's established industries[17]

Wisconsin's major industries employed 510,219 workers in 1975, distributed as follows: (listing only the 8 largest employers).

Machinery manufacturing	111,928
Food processing	51,665
Fabricated metal	49,966
Electric and electronic	45,701
Transportation	37,428
Paper	35,514
Primary metals	29,371
Printing	26,982
All others (under 20,000 per industry)	122,000

Heavy industries in machinery manufacture, tool and die, fabricated metals, and primary metals have a solid base in Wisconsin and require highly skilled, stable personnel—many of whom are educated and trained in the State VTAE System.

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[13] K. S. Kinney—Milwaukee Journal Economic Reporter Milwaukee Journal Business News, 12/30/80. Page 8.
[14] Wisconsin Blue Book (1979–80), page 690.
[15] IBID, page 694.
[16] IBID—K. S. Kinney.
[17] Wisconsin Blue Book (1979–80) p. 743.

Food Processing and paper manufactures require Wisconsin's agricultural products and water as well as skilled personnel.

The electronic industry might be more easily relocated—if cheaper labor and enter level jobs suffice to assemble the solid state wiring. (Cite example of Allen Bradley.) Let's look at Wisconsin employment in the '70's.[18]

	1972 (1,874,500)	1977 (2,107,000)	Change (13 percent)
Manufacturing	493,600	533,100	+8
Wholesale—Retail	345,900	493,100	+14
Services	249,500	320,100	+20
Government	275,900	287,100	+12
Agriculture	143,900	112,500	−13
Transportation	81,700	84,500	3
Finance—Real estate—Insurance	64,100	79,300	23
Construction	62,400	74,000	16

Note that agriculture is dropping rapidly because of urban sprawl and consolidation and enlargement of farms. Manufacturing is more than holding its own in spite of foreign competition and automation. The expanding areas (over 20 percent) are Services, and Finance, and Real Estate and Insurance. Manufacturing remains a prime anchor of Wisconsin's economic development, with non-manufacturing sources rapidly expanding.

Wisconsin will maintain and expand its high quality, skilled labor pool in the '80's and '90's. A recent Census Bureau study forecasts strong Wisconsin population growth of 16.7 percent, increasing its population from 4,752,000 to 5,198,000.[19]

The surrounding States have lesser projections—

Illinois, 5.9 percent; Ohio, 2.9 percent; Michigan, 9.4 percent; Minnesota, 13.3 percent.

The same study projects a population growth of 25.3 percent for the south and the west.

I will close with an ode to the Kohler Company, a harbinger of Wisconsin's economic development in the '80's and '90's. On March 24, 1981 the Milwaukee Journal reported that Kohler, a native plumbing-ware manufacturer, would expand its Wisconsin operation with a $70 million investment in a new production facility, a highly automated warehouse, a hotel and convention center, an employee medical and sports center, a housing development and a village shopping center. Simultaneously, Kohler is building a $20 million plant in Brownwood, Texas. Kohler values Wisconsin's assets, its highly qualified employees, and its strong economic base. To quote Kohler's economist, Robert Milbourne:

". . . The outlook for the 80's looks good for Kohler and many other companies because of the way . . . groups in Wisconsin will change. The most productive and consumption minded age group (25 to 44) will represent 31.9 percent of the State's population in 1990, up from 27.9 percent in 1980. . . . Wisconsin's overall population will grow at least 1 percent a year during the 1980's to about 5.3 million in 1990. A rate of increase of 10 percent for the decade, nearly twice as great as that of the 1970's. There are broad population gains in the Sun Belt and western states . . . with good business opportunities. . . . Within Wisconsin—there is a kind of Sun-Belt—in-average trend going. People and business are moving north. . . . An area stretching roughly from Green Bay west through Stevens Point and Eau Claire is likely to report particularly significant gains—the Wausau area is one of the 25 fastest growing metropolitan regions by income in the Country."

Wisconsin's Economic journey through the '80's and '90's will be difficult—make no mistake about it. But I believe we understand what must be done.

Representative REUSS. Thank you. Thank you all and I have lots of questions, both about our particular microeconomic Milwaukee problem and about some of the macroeconomics, the big economic questions which naturally enough come into such a discussion, because we can do

[18] Wisconsin Blue Book (1979–80) p. 747.
[19] State of the Region, 1981, p. 68, 69.

the most marvelous things directed at just Milwaukee, but unless we have a growing and noninflationary economy throughout the country, it isn't going to help us in Milwaukee very much.

Let me start with some of the observations made by Mr. Roethle about the social and economic effects of the thinning out of Milwaukee business, either through merger or through a decision to expand elsewhere and contract here. However it comes about, the social and economic effects are the same, and you've detailed them: The reduction in the commitment to the community; the loss of upper income managers who are capable of supporting many of the good things of life; the loss felt by many professional services—the lawyers, the accountants, and so on; the loss of the banking community of deposits.

Let me now turn to another member of the panel who had some interesting things to say about corporations moving wholly or partly out of our area, Mr. Krikorian. I'd welcome anything you have to add to the record here, Bob. Let's just call it the process whereby jobs and firms move. You can't stop movement. If we get a movement in correlated to the movement out, that's great—let's upgrade what we've got. But, of course, if all we get is a movement out, that's not good.

I know you've been thinking a good deal about this. I'd welcome anything that you have to add to what you've said before.

Mr. KRIKORIAN. I don't read or hear much about the subject, and I think it's a very profound one.

I often liken it to the inexorable result of a Greek tragedy, because it's a very difficult decision to make on management's part. It's very expensive. If you move an operation, in round terms it might take you 4 years to recoup that initial investment and to get on a better earning trend. So that's not an easy thing to do.

When you move a product line out of a State, there is a loss of employment there. Of course, the people hit hardest are the employees that don't go with that job. It obviously affects the unions.

There is a process involved here that in some respects is incredible because no one does anything about it. They lament the move, but there's nothing in the process that really lends to conversation or problem solving, and let me take you through that.

Following World War II the United States was essentially the sole productive nation in the world. The other economies had been damaged or destroyed during the war, and we had it very good supplying the needs of the world.

The businessman's responsibility, his mission in life, was to get a good return on his investment and to provide goods and services that people wanted. The mission of the labor leader was to do his best to try to get more of the benefits of corporate America reflected in the paychecks and fringes of the worker. Both goals were very laudable.

But in that process there is a very clear understanding between the two. The union leader understood that managers would not stay in place if they didn't operate a profitable business. They hoped it was very profitable because that provided an entree to get the workers more. The businessman recognized that from the labor leader's standpoint, when a negotiation was terminated and a contract was struck, that was forever—literally forever. You never went back to the labor leader and asked him to ease up on some of these things, because that was a takeaway which he couldn't tolerate.

So when business becomes competitive and a product line is in jeopardy, the labor leader knows that the businessman is not going to stay there in that business and lose money. He recognizes that something is going to happen.

Now, the businessman knows he can't sit down with the labor leader and say: If you were willing to change this or that we could work together to solve this thing. He knows that he can't listen to that.

So here's what happens, and I can tell you from firsthand experience. My company has operations in maybe 50 different locations in the United States. So it just isn't product moving out of Milwaukee. We've moved product out of Pennsylvania, Kentucky, and other places.

Here's the process that takes place. The law requires management to advise the union. Management is violating the law if it makes a decision to move without conferring with the union, but here's the process that takes place. We are required, as managers, to advise the union that things are pretty tough in this particular product line or business. We've struggled to try and make it reasonably profitable so we can stay here. It isn't going that way, and it looks to us like we're going to have to engage in a study for possibly relocating the business.

Now, the law requires that we give the union at least 30 days notice, during which time the union representative can conceivably say: "We don't like the idea. What can we do about it?"

I can tell you from firsthand experience—and we've moved many products in the last 10 or 15 years in not one single instance has the union said to our management: What can we do about this together? Instead, the 30 days goes by. We are now legally permitted to make any decision we want to. They lament the loss of jobs.

I'll tell you frankly, we've moved business out of Milwaukee recently, and in the 30-day period not one peep was heard from the union. When the decision was made to move to another operation of ours in another State, the big question was how many jobs are going to be lost and when?

Now, in the moving process we have very high costs. We have to take care of these employees as fairly and as reasonably as we can with termination wage extensions and all the things that go with them. Then we move and start all over. As I say, it will take 3 or 4 years to get that back.

But that process goes on every day in America, and as I mentioned in my talk, we have not learned how to talk to each other. We are so convinced we know what's in the other person's mind that we almost say: That's the way it goes, so let's see what happens. I think this is pathetic.

Representative Reuss. Well, then, Mr. Krikorian's proposed law of governing the process of plant location and relocation is for both sides, labor and management, to start an early dialog and level with each other and do that as early as they can. Don't try to compress it into a legalistic, formalistic, 30-day period, which is certainly too short, I think you're saying, for the kind of laying it on the table that you think is necessary.

Do I understand what you're saying?

Mr. Krikorian. Essentially, but I'd like to add one other point. I talked about a Greek play. I don't see any villains in this play. I would hold management equally responsible, and maybe even more than I would the point of view of the union.

One of the things we're learning, as we spend more time interviewing and surveying the attitudes of our own employees. is that they've got a hell of a lot of ideas about how we can do things better in our operations: how we can improve quality, how we can lower costs, how we can provide better teamwork.

And to be perfectly honest, management hasn't tapped that talent as well as we should have. Now, we're going to do a better job in the future. But even if that kind of a rapport could be developed, we wouldn't be facing that particular point in time as early as we do. Maybe if we paid more attention and worked more together we could lower costs, we could improve quality. We would have no need to have to move that operation or that particular product line.

So I think there's an awful lot of conversation that has to take place that hasn't been taking place in the past, and I don't think Rexnord is unique in this. I think that's a process that almost all of us in industry will go through.

Representative REUSS. Those of us who visited Japanese industry have been impressed, and it's now commonplace, with the Japanese quality circles where both sides, management and labor, get together to improve quality and productivity in labor-management relations.

Generally, a few of our Milwaukee industrial firms are now experimenting with quality circles. For all I know, Rexnord is one of them.

Mr. KRIKORIAN. We are, we are.

Representative REUSS. Good for you.

Mr. KRIKORIAN. I think there has to be a willingness again on the part of the union. You see, we are required to work through union leadership with our employees. If the union leadership is willing to embark with us in that kind of an enterprise, that is what it takes.

Now, sometimes union leaders are not too crazy about that because in their view we're kind of bypassing their influence with the workers. I think the real success of something like that is the willingness on the part of management to share the benefits that arise from that kind of a cooperative effort with the workers. Management cannot ask the union or the employees to start doing all these things and let whatever benefits result accrue to the company—even if we look at our balance sheet, as John Roethle says.

A few years ago, Rexnord was earning 5 or 6 cents on the sales dollar. That's 5 or 6 percent on our sales dollar, when the public thinks most of us make 35 percent. I am sorry to say that in the last couple years that trend has declined, and in the first 7 months of this year we are earning less than 3 cents on the sales dollar, but I hope things will get better. We know the marketplace are in trouble and we've all heard from our speakers some of the problems we face.

But to be successful with that quality circle added to it, management has to be willing to share some of those benefits that accrue with the workers.

Representative REUSS. Now, let me turn to a really central issue. What kind of formal or informal organization is best suited to make the most of Milwaukee's economic future? And let me turn again to Fran Ferguson, because he so truly represents the spirit which has made the downtown development possible, as he is the moving spirit of the Milwaukee Redevelopment Corporation.

Tolstoy's theory of history is that history is not just a stream—that its course is made by boulders that deflect the water one way or the other. You have been a real boulder in the stream of history of our community, and I commend you once again. Your group or its predecessor was, first of all, responsible for most of the public and quasi-public buildings that have been erected here since World War II, and they have changed the face of things and made possible some of the subsequent development. More recently you've brought together this government-industry-business-labor coalition that is in the course of remaking our downtown.

I have a feeling that your group is looking around for new worlds to conquer. You should be. I was very excited to hear earlier this morning from you that you're shortly going to come forth with some specific proposals for housing in the downtown area. I think that, too, is the wave of the future, and I eagerly await that new effort of your group and want to help in any way that I can.

Let's look, however, even farther than that. We've talked about the coalition and its work on downtown. We've talked about its upcoming work on close-in housing. Let's look at other possible tasks, beginning with one I think has been suggested particularly by Mr. Whitney and by other witnesses.

I think it's true that our universities, particularly the two great universities in this community, have not done as significant work as they're capable of in working with industry on research and development—particularly in high technology industry, but also with respect to the whole spectrum.

I would, therefore, like you and other members of the panel to comment on the suggestion—and it's come from a number of witnesses—that some sort of coalition approach would certainly have to include our universities, our academic community, to achieve greater R. & D. spinoff on the order of the sort that Stanford and MIT, to name two important examples, did.

Mr. Whitney has already really made that proposal. How does this strike you?

Mr. FERGUSON. Well, a couple of comments come to mind immediately, Congressman. If I can remember reasonably accurately the years—I hate to think of how long ago it was—that I was on the university campus, there's been a tremendous change from that period to now on university campuses in the attitudes of professors and instructors and assistant professors, the whole staff.

You used to think of people as being—at least I did, but maybe I was naive—truly scholars that never took a position on key issues, but rather threw out several opportunities of thought on an issue, taking several sides of it.

In the last few years, that has changed to where much of academia has become a protagonist of certain points of view. This is not universally true, obviously. But in many ways, it destroys their credibility as scholars by not looking at all sides of the question but, rather, taking one side and promoting it.

I guess that's—maybe that's right. It's different from anything I used to experience, at least as I perceived it. I think that's one of the reasons why you hear comments, and have heard comments at this

table this morning, about the lack of university responsiveness to business, because there's not an understanding of it. They have pretty generally taken an attitude of antibusiness in many, many instances, except in the business school itself. And even there you run into some on various campuses.

You are now seeing some of the things that Bob Krikorian is talking about between labor and management going on in the college campuses. Some of the very elite business schools are now questioning whether they've really been going at things in the right direction. Because the dialog was really a monolog in one direction, and I think the improvement comes about in dialog when we each appreciate the other's viewpoint, even though we may not totally agree with it. At least we do arrive at a position of appreciation of somebody else's approach to thinking.

To me, it's not a question of some person suddenly waving a wand and saying: Now we're going to have high technology research and development on our college campuses.

Mention was made of a very high technology company that's had extremely high growth here: Tombstone Pizza. I don't know how you describe that as high technology, but it's going like hell, and who cares how high technology it is as long as it's profitable and going?

I think that we all are looking for those instant solutions to things and do write the directives: Now, university, you must get into high technology.

In the marketplace of ideas, I think you will find that the response by the universities is going to be pretty strong themselves, or they're not going to survive and be leading institutions.

Maybe we should take the cue from some work that is being done at universities in the State, and magnify, as Bud Whitney was talking about, our effort in the biological sciences rather than just looking at Route 128 and Silicon Valley. They may have a lock on that. Let's find the chip that has something to do with the biological sciences where we are outstanding. No institution in the world approaches the University of Wisconsin in its biological science achievements, and its research work.

We're always looking at high technology as being that little electronic chip and everything that goes with it. There is a heck of a lot more to high technology than that.

There's one of the high technology industries of the Nation right here: The Allen-Bradley Co. Some of the things that it's doing in controlling the processes of production are the highest technologies that are being applied to production in the world, and Allen-Bradley is competing very favorably with it.

I don't fear this. You know, we're going to have to have heavy industry, but we've got to have a good solid economy first.

I applaud some of the things that Burt Zien said. I know this is not where we ought to get into a debate, but God help us if we ever go to controls.

Representative REUSS. Let me pursue that. I would not for one moment want to force Burt Zien's price controls upon you, but how about what he's doing up at Third and North? Let me just recapitulate what Hankins and Zien said about that remarkable development.

It looks to me as if maybe they are getting critical mass to play there. The DNR building is underway. Walgreen's and Lerner's look like real possibilities.

Therefore, aren't they applying in a miniature way precisely the same critical mass idea which you and your associates have been applying with such success downtown, and aren't they on the right track?

Mr. FERGUSON. Wonderful. I think this goes to one of the things that Jim Rouse was talking about today: the diversity of our ethnic groups and so on.

Isn't it wonderful that different groups take on different projects in different parts of the cities to accomplish all of the same sort of goals, and they're doing them rather spontaneously.

Burt, I think the work that you're doing up there on Third Street is fabulous.

Mr. ZIEN. Thank you very much.

Mr. FERGUSON. They have limited resources. If I thought they had unlimited resources, I'd go to them and ask them for some help.

On the other hand, we have limited resources and can only go so far, and I'm really thinking about that in terms of energies and time and efforts of people, as much as I am dollar resources.

So I think it's wonderful that we all approach different problems with the same goals in mind, and I applaud what they're doing out there. That is a disaster land, and it really needs attention. There's no question.

Mr. ZIEN. We're doing fine.

Representative REUSS. I'm delighted that you say what you have. I remind us again of what Jim Rouse said earlier—that a lot of economic development is a matter of merchandising. He pointed out that he made Columbia go—100 percent private sector—by merchandising. Not a bad idea.

Now, you've said that your group, the Redevelopment Corporation, has limited reserves not only of finances but of human energy, and I accept that.

Mr. FERGUSON. I probably ought to show you the balance sheet, Henry.

Representative REUSS. Put the balance sheet to one side. It's the human resources I'm thinking of. Happily, your committee is about to become technologically unemployed when the downtown gets fixed up, and I leave you with the thought that there may be a few reserves of energy on the part of the great number of livewire associates you have who could help on that Third and North critical mass. It is a job of marketing and merchandising, and let's thank our lucky stars that Zien and others are working their tails off up there and that the rest of us don't have to.

But it may be that, just as I can and should help, that your group can, too. So I invite you, Third and North, to make contact with the overall Redevelopment Corporation. It may be that they know some more Walgreen's and Lerner's that could strengthen what you're trying to do there.

What I'm getting at is that, in addition to the downtown, in addition to the close-in housing that you're talking about, it may be that you can lend some critical help at the margin to neighborhood groups.

As you know, I've been very active in the downtown and I've been

with you all the way. I've taken some understandable flak along the way from neighborhood groups who say: Why do all this for downtown? We've got problems at Third and North and Park West and Sherman Park, too. To which my answer is that development of those areas has to go hand in hand with the downtown.

But I commend to you and your group the possibility of your being a little more active in these outlying neighborhoods—if and only if you have present in them a group that believes that God helps those who help themselves.

Mr. FERGUSON. I think that's a fine suggestion, Henry. One thing I would like to point out to you is that under our articles of incorporation it was determined that we couldn't spread ourselves too thin and would have to zero in on something. Therefore, under the articles of incorporation, the Milwaukee Redevelopment Corporation is restricted to the freeway loop, which is 756 acres. That is what is within the three sides of the loop, and the lake on the east.

Now, that doesn't mean that energies otherwise can't be utilized, and maybe once we get over the hump down there, there would be a lot of energies available.

Representative REUSS. Well, I am aware of that, and thus I haven't suggested, and don't suggest, that the Milwaukee Redevelopment Group reconstitute itself as a general, benevolent Mr. Fix-it for Milwaukee's future economic growth. If you make the mandate that broad, it would just result in the dissipation of your energies.

But I am sugesting that your track record is so splendid that it may be that you will be able, at the margin, to get into things like helping one or more of the neighborhood redevelopment groups.

Mr. FERGUSON. They are both very complementary.

Representative REUSS. Or in assisting this technology research and development effort which Mr. Whitney has talked about.

Mr. ZIEN. May I talk to you for a moment, Fran? Our group would like to meet with you and Hal Kuehl one of these days to kick this thing around—to let you know what's happening out there and bring you up to date.

Mr. FERGUSON. We'd very much welcome it.

Representative REUSS. And I think in that connection that Gerry Hankins will say here what he's told me many times—that the Milwaukee establishment has been extremely helpful, including those sitting at this table, to his bank.

Mr. HANKINS. Oh, definitely. Quite a few of them.

Representative REUSS. That's one of the reasons you're here at the table today.

Mr. ZIEN. May I make one comment, Henry?

Representative REUSS. Surely.

Mr. ZIEN. My company happens to be working at a General Motors plant down in Janesville. A lot of things are going on in this country that people don't know about. People like General Motors are revitalizing and going into high technology and improving their assembly lines. We happen to be one small part of that project, and it's interesting. Allen-Bradley is playing a very major part in this country, I found out, because they're at Janesville as well as seven or eight other places in the country. They are automating and robotizing, at the request of General Motors, much of the assembly lines. So within a couple

of years you're going to see a major renovation in the way they sell cars, and the price of the cars, and so on.

So much is happening under the surface, but on top of that most of us are caught in this high interest rate. We don't have the resources of General Motors to survive. Northwestern Mutual, one of my insurance companies, does have, thankfully, the resources to carry my insurance policies.

Representative REUSS. I want to conclude, because I did promise that we'd knock off at 12:30, and that's 2 minutes off.

I did want to get into one microeconomic matter—and again a subject brought up by Mr. Ferguson. You pointed out, Mr. Ferguson, that the dogmatic pursuit of monetarism has been responsible for some of the troubles in which this country today finds itself. I think what you're criticizing is exclusive reliance on one economic doctrine, particularly when that economic doctrine has to deal with rapidly changing monetary aggregates. One day it's savings accounts, the next day it's money market funds. So it's very difficult to work those needle valves with all that much precision.

You've suggested that overzealous application of monetarism is responsible for many of the troubles which face this country, particularly the collapse in the bond market, which has been so traumatic for all holders of fixed income instruments.

Is that a fair statement of what you're saying?

Mr. FERGUSON. Well, to a degree. Let me elaborate just a minute if I might on that score.

One of the things that we can't be too critical of is the fact that monetarists have been really the sole fighters of inflation over the last decade until very recently when we have turned away from some of our past policies and have tried to be somewhat more restrictive in the fiscal side. There has been very little attention given to that over the last policies and have tried to be somewhat more restrictive in the fiscal side. There has been very little attention given to that over the last 25, 30 years. Good, bad, or indifferent, that's the way it was.

So we have had only one entity that has been fighting this, and they have been pretty overzealous at times because they looked at themselves as the only one. Now, you can argue this, but I think this is a pretty general perception by the public. I don't think we can criticize them too much.

That's why I suggest to you that what Reagan has done so far on the other side of the horn is going to team up with monetary policy. I've got a fellow back here that's been doing work on it. I think it would be appropriate if you got with your technical staff of the Joint Economic Committee and talk about it.

Representative REUSS. Right. I'd welcome that because I've had some opportunity to review them.

Well, let me then just take it from there, because essentially what you're saying is very much like what Mr. Kuehl had to say, that you can't really blame high interest rates totally on the Federal Reserve, because for them to have suddenly turned on the printing presses and accommodated all the demand for money by the Treasury and everybody else would simply make matters worse than they have been.

And I thoroughly agree with you, both of you, on that point. I think that the major sin—and Mr. Kuehl explicitly said this and I

think you would agree—has been that the Treasury, due to our deficits, has been in the marketplace very heavily and continues in the marketplace as a bidder-upper of the relatively scarce supply of money.

Isn't that a large part of the problem?

Mr. KUEHL. I think that's a large part of the problem, but I think the current question about interest rates is not simplistic. It's a very complicated problem.

But if I had to pick one single factor for what's holding up interest rates and destroying the bond market, it is the lack of confidence that Congress is going to take the action to reduce Federal expenditures, because there's just no confidence that we're going to beat inflation.

And if you look at the real interest rate—the interest rate above inflation—it is higher than it has ever been before and it stays that way. The bond markets are scared to death that we're going back to opening that spigot. The Government is crowding them out. The way you stop the crowding out is to stop the spending, and they have no confidence that Congress has the stomach to do that anymore.

Representative REUSS. Well, the thought I would leave you with, particularly Mr. Ferguson and Mr. Kuehl, is this:

I agree with you that it is the market's uneasiness about the size of the present and future deficit which very largely results in that stupendous inflationary premium and the cruelly high structured interest rates.

However, I suggest to you that what the market is worried about is the totality of three things: One is what Congress is going to do about civilian expenditures—is it going to increase them, decrease them, or what? Two, what about military expenditures which are being increased at a faster rate than at any time in our peacetime history? And third, what about the effect of the three-quarters of a trillion-dollar tax reduction which inevitably, by cutting down receipts in the upcoming fiscal year, for example, increases the deficit.

So wouldn't you agree that you have to look at all three—civilian spending, military spending, and revenue receipts, because that's what makes up a balanced budget, a surplus, or a deficit?

Mr. KUEHL. The first two are both expenditures, however, and I think that's where the marketplace has concentrated. You're right. Tax cuts may force the Government to higher participation in that marketplace. I can't argue about that.

Representative REUSS. Well, to me, you've got to look at all three.

Mr. FERGUSON. It's a very complicated process and problem and it can't be simplisticly answered and cured.

Representative REUSS. Good. Well, I'm glad I did explore macroeconomics a bit with you. We could go on, and I would like to go on for another hour or two, but promises are promises. You've been enormously helpful.

I said we'd quit at 12:30 and it's now 12:35. You've made a real contribution. We're going to get out a book on these proceedings, and this will be a red letter chapter in it.

We now stand in recess until 1:30 in this place for continuation of this hearing.

[Whereupon, at 12:35 p.m., the committee recessed, to reconvene at 1:30 p.m. the same day.]

AFTERNOON SESSION

OPENING STATEMENT OF REPRESENTATIVE REUSS, CHAIRMAN

Representative REUSS. Good afternoon, ladies and gentlemen, this is the continuation of the congressional Joint Economic Committee hearing on Milwaukee's economic future. From the very beginning, Milwaukee has been very proud of its industrious skills and energetic labor force and the leaders of Milwaukee's unionized labor are here today to help us in our search for some keys to a continued optimistic economic future in Milwaukee with particularly a great emphasis on jobs. The witnesses include John Schmitt, president of the Wisconsin AFL–CIO; Ralph Koenig, director of Region 10, United Auto Workers, and Jim Elliott, director of the Milwaukee Building Trades Council.

Gentlemen, you are most welcome. Would you proceed in any way that's comfortable to you? I think we'll start out with Mr. Schmitt.

STATEMENT OF JOHN SCHMITT, PRESIDENT, WISCONSIN AFL–CIO

Mr. SCHMITT. First, Mr. Congressman, I appreciate, along with my colleagues, the opportunity given us this afternoon to discuss with you some of the problems we see with respect to the economy and how it affects our jobs.

As far as mergers are concerned, I know there are a number of speakers who dealt on them yesterday. Let me make just a simple statement on mergers.

Big business today diverts credit from productive investment and keeps interest rates high. The push for mergers and acquisitions by giant corporations using billions of high-cost borrowed dollars coupled with the tight money policies of the Federal Reserve is maintaining pressure on interest rates, and will keep levels high for the foreseeable future.

In Milwaukee, we've had a number of serious mergers. About the only one that has been successful, of course, is the purchase of the Miller Brewing Co. by Philip Morris. But all of the other industries, including the recent case of Schlitz, has not only resulted in top management meaning corporate dollars being removed from the community but also results in operations that formerly might have stayed in Milwaukee or Wisconsin being diverted elsewhere.

The problem with mergers is what they really result in is companies investing their dollars and not really worrying about people.

I think a great company like Schlitz was ready to close up its doors with no concern for better than 1,000 workers shows what industry thinks with respect to people.

I happen to believe that companies have a responsibility in the community, owe the community something. And I don't think the corporations in America should be given orders or be given that kind of free right to move out. We have talked for a number of years about legislation which would make companies notify their workers that within 2 years they would be considering that kind of move, at least to give that work force an opportunity to look around, maybe get

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new skills, but above all to decide whether the job is going to be gone and whether the workers will have to do something else.

At a time like this when the corporation can just move on because of a merger or acquisition, just look what happens when all those workers with their high mortgage rates and very high cost of medical and surgical coverage?

Everyone of those laid off workers at Schlitz now pays their own medical and surgical coverage. Under a reduced plan, inferior to the one they had as employees, they are now paying $150 a month just to keep that medical-surgical coverage. And then when you hear the cry about how high unemployment compensation is, well, one check is going just to maintain their medical-surgical coverage.

So I would look very closely at the merger of these corporations. Something has to be done, and it's going to take Federal laws.

We're talking about in Wisconsin, but whatever we do in Wisconsin to improve the plight of workers is affected by what happens in the Sun Belt. And with the notorious operations in the Sun Belt, I think we're at a further disadvantage here than if, with the restricted legislation, if somebody would say, stay in this State. I think it's a Federal problem and the Federal Government ought to look at it.

I think the policies of this administration are just horrible. I think the 10–5–3 provision does little or nothing for Wisconsin. It may be of benefit to the Sun Belt where the newer plants are being built. But not having that many new plants I wish the Federal Government when they talk about reindustrialization would form a partnership of business, government, and labor to talk about a reindustrialization program.

And I think the success of that kind of program would have been to earmark those tax dollars to those cities who have floundering industries and provide them with tax dollars, not across the board like 10–5–3 did, but put those tax dollars to an industry which is going to modernize its plant, improve its plant. That's the key to whether or not the cities in the North are going to survive. So I see no benefit whatsoever, or at best, very little, to the industrial section of the North. And I see gains in the South. And on that basis I just don't understand why they would do this kind of a thing.

These across the board—what in the hell good does it do to give Exxon all those great tax breaks and they're going to turn around and buy other companies out. You're going to end up in this country with nothing but a handful of giants. And then they say workers are going to be affected. Because when corporations can control not only the dollars of their industry but other industries, how does a worker try to negotiate a decent contract with them?

And I think the advancement of the trade-labor movement in the last 30-some odd years since World War II is what's kept America growing. The ability of the unions to get decent wages and contracts for their members and their families have resulted in middle-class America enjoying a pretty good way of life. And we're going to be faced with more problems. As a matter of fact, I see in the future, wage

increases will go primarily to those on top, especially in the service industries, while those on the bottom get a slight share and the middle class—the group of Americans that have made this country great—is bypassed completely.

So the ability—availability and the ability of a union to get a decent scale, and that's what it's all about, is going to be diminished when we don't have the tools to deal with these giant corporations. I think further, corporate tax dollars are used for building plants overseas from which we get no benefit.

I would like to hope that the new savings certificate is going to do something for the industry but I just don't see it doing anything for the housing industry. As a matter of fact, I think it's a subsidy really, a substantial subsidy for lending institutions and a tax break for high income earners. I see little gain from there. And maybe somebody said, well, how do you get the money to talk about the things you're talking about?

First, I think we ought to put a cap on the individual tax cut. Let's say $700 max. That means those below $42,000 or so would get what they're entitled to and those above $42,000, who in my opinion don't need it, and that goes for me as well, could give up some of their tax break. I think they ought to postpone the oil company and oil royalty owner tax breaks. I think they ought to return the business investment tax credit to 7 percent. This would pour a total of about $16 billion back, it could be used for some of the programs that I think are so vital.

Here in Milwaukee we got a serious sewerage problem. And we're going to need some Federal dollars. I think Milwaukee has to own up to its responsibility and the State of Wisconsin to raise what they can. But unless we can find another area outside of property tax I think we're in horrendous trouble.

I think the education dollars that the administration has attacked is going to have a serious consequence. I keep hearing the hue and cry about productivity in America. We aren't as skilled. What do you think is going to happen when you dry up those education dollars which allowed opportunities to get a better education? Our vocational programs are going to erode because tuitions are going to have to go up and our people won't be able to pay for them. I think in lieu of a great number of CETA programs and PIC concepts—I got great reservations about them—I would rather earmark dollars instead of giving a tax break to an employer who's going to use a CETA or a PIC program to get cheap help. I'd rather use those dollars to pay the cost of tuition and buy some books and provide some transportation and meal money and send our graduates out of high school to a training institution to get a skill that's needed that's going to move this economy forward. So I am very unhappy with Reaganomics. I just don't see that it's going to lead us to where I think we ought to be going. And I suppose in conclusion all I can say to you is for the sake of America it better work. Because if it don't, I don't know what the hell we do then. Thank you.

Representative REUSS. Thank you. Mr. Elliott or Mr. Koenig? Do you want to add anything to what John Schmitt just said?

STATEMENT OF RALPH KOENIG, DIRECTOR, REGION 10, UNITED AUTO WORKERS

Mr. KOENIG. Mr. Chairman, first of all, I too thank you for the opportunity to be here today and I might note that John and I appear here with the UAW back in the AFL and certainly all of the things he said we concur in.

Mr. SCHMITT. I welcome the per capita tax, Congressman.

Mr. KOENIG. But there are a number of things that I would like to call to the attention of the chairman and the committee in this respect, in that each of us at this table in reality sort of represents a different faction of the work world that we're all so concerned about. And being invited here to look at the future is always difficult—but I'd like to say a few things just in general terms.

We've discussed in the past the future of Milwaukee and the area many times—the establishment of a program with goals for Milwaukee 2000 currently being directed in that fashion. But I think that as we look to the future we also have to look to the past about what put us where we are.

Locally it is my feeling that we have lost the dedication by the business world in this community to accept the total responsibility if not a part of the responsibility for the community as such. The corporate mergers that John has talked about has brought about a loss of identity to the Milwaukee and the State corporation. And with that loss of identity is the loss of responsibility. The leaders of the giant corporations, that have merged, no longer have a feeling that the community is something that the corporation must be directly related to and that they succeed only if that community succeeds.

As an example, Mr. Chairman, I look to my own plant, one of the greatest corporations in the Midwest. The Allis-Chalmers Co., when I was president not too long ago, in the last couple of decades had 10,000 workers in the union, as of October—at the end of October the Hawley plant works of Allis-Chalmers will close forever, the remaining employees will be out of work and the number of employees in the production unit will be about 2,000. And it doesn't look good. Corporations with new leadership, with industrial mergers, sold products, moved products to the Sun Belt, brought in German capital and many others and the Milwaukee operation has shrunk to the point that it doesn't even resemble its former identity.

So what happens to Milwaukee is—I agree with Mr. Schmitt—dependent upon what Congress and the State legislature is willing to accept the responsibility to do. The current Government programs under President Reagan will put a burden on Milwaukee taxpayers. The fault is not local; it's at the national level and the State level. Because often, as they say, the buck stops in the President's office; in the tax cycle, the buck stops with the property owner in the city of Milwaukee. And as we cut back on all social and human programs in the State of Wisconsin, and as the State legislature refuses to accept the costs of continuing those programs we, in Milwaukee, out of necessity, have to take care of the indigent, the poor, the elderly, and it can only come from one place. If it doesn't come from Federal Government or State government, it leaves the taxpayer to bear the burden. And

accepting that tax burden conceivably might put many senior citizens out of their homes.

Now, what's happening? I continually look at Government contracts being placed, I picked up the Wall Street Journal on the 1st of October and on that day the Government let $802 million in Government contracts. Ashamed to say that all of it was for military hardware, practically, but not a single contract was let for Wisconsin.

And I know the old saying of Wisconsin industry. It's not desirable to bid on military hardware because it has its peaks and its valleys and it doesn't lead to stability. However, there's a big part of the business world that obviously thinks it must have some stability because they continue to bid, but not in Wisconsin. I think that as long as Wisconsin has the unemployment it has today, the first concern should be with putting people back to work and not the peaks and valleys that business people may or may not enjoy.

The business world, over the years in the Milwaukee area, often has taken its manufacturing property and left it to disintegrate. By that, I mean it has not kept up its maintenance. It has then sought tax breaks because it didn't keep up the maintenance, and when the factory becomes outmoded or not conducive to modern-day manufacturing, then you look elsewhere and pack up and leave and take it into the Sun Belt or some place where some State is willing, through unfair means, to give you free factories, low rent. Or even advertise a little in the national papers to come and look, stay with us, we will give you a wage climate underneath the Southern average and we will give you a strike-free or union-free community.

These things are all unfair and certainly need national legislation. I also think, as John does, that where special tax breaks are given to enhance the position of the corporation so they may invest in capital equipment, that those corporations should be compelled to invest that money in capital equipment in the States in which they are doing business and not, for instance, receive it on a Wisconsin facility and then use that money to build a new factory and buy new equipment in the State of Mississippi or elsewhere.

Management, too, has neglected completely the training of skilled workers. If you will take an inventory of the number of apprentices being trained in this area, it has fallen to an all-time low. And it's really destroying the greatest thing that this community was ever known for, its skilled help—the skilled work force that it had developed over many, many years with the advent of the people from Europe.

So I say that the Government has to take this in hand, preferably at the national level. What's wrong with the words, "national planning"? Why are they bad words in our vocabulary? And yet, in America, there is no national planning. But in every free democratic society in the world, and especially Europe, the plans are on the board to know how to handle the situations that arise.

A corporation should not be able to close its doors and move and leave the community to try to work itself out of a posture that the company put itself in. In every free democratic nation of the world, when a company decides to move, they have to petition their government, giving the reasons for the move, stating the impact on the com-

munity economy, stating the impact on the work force, the unemployment it will create. Why is it moving to the next place? What are the benefits? What are the considerations? Is there an unemployed work force? Is there a skilled work force? What will it do to the environment of the area that they're leaving and the environment to which they're going? We have never addressed these things and I think it's certainly high time we do.

Now, in conclusion, Mr. Chairman, I would like to cite a few things. The net result of our failure to engage in national planning has caused the situation we're in today. The lack of heart of the administration concerning needs of its senior citizens, and the attempted breaking of faith of a commitment between the Government and its senior citizens is going to lead this country to economic disaster. It will either force people to use up meager savings and try to exist or it will force the elderly to retain their place in the work force far beyond what they should and, as a result limit the opportunities for young people to find gainful employment. And so you've hurt those at the elderly edge of the spectrum and those at the early edge of the spectrum in age.

The failure also generates the dependent populations which means we have more and more social problems and human needs problems. The Federal Government today, under the leadership of the President, has decided that human needs aren't really that important.

We have no Federal funds to develop resources in Wisconsin. The companies that do bid do it out of State, as I say. We have a lack of corporate responsibility and until companies, as I said, are forced to justify publicly their programs for movement, this disruption will continue and the economy will suffer.

But more than that I don't think workers should bear the brunt. Workers should not be left behind when a company decides to move because they were enticed by another part of the Nation for reasons of selfishness and the profit margin of the corporation. Workers shouldn't be left to forage for themselves without medical insurance because an employer shuts down an operation. It's necessary that the Government legislate continuing coverage for the people that are left behind by corporations that have no conscience.

Last but not least because I do represent the automotive and the agriculture implement field we cannot let America continue to be a dumping ground for foreign products. Namely, automobiles and in the agriculture field we're well known to the Kubota tractors and the others that are finding their way into the American economy. I know we could debate at length the Japanese method of manufacture, payment, and standard of living, and if the time were available I'd be happy to do so.

So America's solution for economic growth can no longer be going back to the Hoover economic program of a trickle-down theory. You can't cure America's problems, Mr. Congressman, by creating unemployment, you can't do it by depriving the needy, you can't do it by assaulting the security of the elderly or hampering the growth of the young. You can't do it by helping business—big business at the expense of small business and the farmer, and you can't do it by having interest rates that make it impossible for a worker to buy the very product he manufactures.

And I'd like to give you an analogy to that. Over in Spain today there's a Ford plant. A huge Ford plant. And if you drive up to it you'll never find a parking lot because nobody working in the Ford plant can make enough money to buy a Ford car.

We don't want to see the American worker get in the same position so I guess we're calling on the Congress with a simple reminder. That you can't balance the Federal budget until you balance the family budget. Because working people are taxpayers and are a major consumer in the community. Unemployed people pay no taxes, they use tax dollars. So we are calling upon the Congress and many of them ought to stand up and get a little backbone and oppose the Reagan program of economics which is designed to give more to the rich, which is designed to make the rich richer and the poor poorer relatively. We feel that's what's happening in America. Develop a system of national planning. Develop a corporate responsibility and not just commercialism in the papers. And we think we can work our way out of this. The labor movement will do its part to cooperate but there has to be a desire in the first instance to stay in Wisconsin, to make Wisconsin a better place to live and to make this community a better place to live. We haven't seen evidence of it, at least not enough. Thank you. [Applause.]

Representative REUSS. Thank you very much. Mr. Elliott, please proceed.

STATEMENT OF JAMES ELLIOTT, DIRECTOR, MILWAUKEE BUILDING TRADES COUNCIL

Mr. ELLIOTT. Thank you Congressman, for the opportunity to appear this afternoon. I want to talk about some problems that are probably unique to the construction industry but that are a real part of the problem in the society today.

The construction industry makes up about 5 percent of the total work force in this country. And it's as severely unemployed today as it has been since the Great Depression of my father's time. And it's not because of conditions that we have negotiated in the labor contracts or the amount of money per hour we make. It's simply a result of the interest rates in this country today. Most times people talk about interest rates as they affect housing and the average individual attempting to buy a home. And that's a very real problem. But beyond that for the construction industry there is a roll-up effect. When money is not available for a major employer at some reasonable rates, he will not remodel an existing plant, he will not talk about plant expansion, he simply will do nothing and his facility becomes older and older so ultimately down the road the decision is made to abandon and relocate someplace else and build new.

How much of a problem it is as far as employment is concerned, and Congressman, I know you and others know the statistics, we always like to quote that about 1 percent of unemployment costs the Federal Government about $20 million-plus a year. The construction industry currently is——

Representative REUSS. Closer to $30 million.

Mr. ELLIOTT. Well as they escalate.

The construction industry today is someplace in this area about 24 percent unemployed. That means one-quarter of its work force is not available, and translates into literally millions of dollars that are, one, not being paid by taxes, and two, being absorbed by the various social programs that our people have to turn to.

Construction workers have a history and they're no different than any other worker. Construction workers have a history of when they're employed they're willing to pay the tax burden, either as income tax or as a property owner to support services, for others in the community who may not be as fortunate as construction workers. Their whole lot in life is to work productively 8 hours a day, produce a product like this building and others. They're not in a position to do that today. And unless some very real steps are taken, on a national level, to do something with the interest rates, I'm afraid that we can look toward the rest of this year, perhaps a best guess is at least through the middle of next year, and then maybe, maybe in a year and a half there may be some break in interest rates. I submit to you today for the construction workers in this community they can't afford to wait. At an ever-increasing rate today we are losing skilled workers who are leaving this area. We also are having a run on our pension funds, our early retirements now are about three times the number of normal retirements.

Those are the people who have had 25 or 30 years in the construction industry. Those are the people who are foremen. Those are the people who provide our supervision. Those are the people who superintend over work when there's work available. Those people are going to be difficult to replace. But if they, for example, have made themselves available for work in the last year and a half or two, they've only earned $10,000. It's more attractive for them to take early retirement whatever that generates, take their social security before somebody tampers with it any further, and attempt to adjust their lifestyle to live on a reduced income and not make themselves available for work in the industry.

Beyond that we have had a very real problem training new people in the industry. Where do they come from? We can't magically go out on the street corner and say somebody's going to be a carpenter or bricklayer. We have not been able because of unemployment for the last 2 years to bring young people into the apprenticeship program in the construction industry. Talk about a youth unemployment problem. Talk about minorities in the construction industry. Talk about opportunities for nontraditional jobs for women. We can't afford them in the construction industry because we're severely unemployed. So there is a rollup effect from the whole problem of high interest rates in this country today.

Beyond that we see some other problems, and it was touched on earlier and I'd like to expand on them just briefly. That of, at least in this State, the education of workers. I happen to be privileged to represent the workers in this State on a State vocational technical and adult education board. As you well know that's a freestanding vocational system, it's not attached to the university system nor to secondary education. We view that system as the workers' college in this State. That provides the skilled work force whether that be appren-

ticeship training or other training. It also provides retraining where people who are displaced either with technology or different industries either coming or leaving, we return them to the vocational system in the State and attempt to pass on to them the skills that they will need to be productive. The system has been successful. We quarrel that employers perhaps do not use it enough. But we see a problem coming on the horizon because of the problems of budgets on a national level as far as the thrust toward educational and vocational dollars are rolled up into various educational acts.

If we are to maintain in this State a viable system to afford those coming out of secondary education and opportunity to learn skills and then at some point if need to be retrain or acquire additional skills, there simply has to be on a national level—with Federal dollars—a thrust for vocational education. We raise a lot of money locally and on a State level for vocational education. It's simply not enough.

There's another rollup effect to high interest rates that I talked on earlier which has an effect on construction and also on other workers in the area. That's in the area of housing.

The Federal Government has begun to be gun shy of various Federal programs for subsidizing, in some fashion, housing, whether that be single-family or housing for the elderly or whatever. The construction industry in this area and the unions particularly have engaged for the last 3 years in an experimental project of single-family home construction. We have purchased available urban renewal land in this community, taking the construction union's money, leveraged that into a construction loan, and put back on the market at a reasonable price single-family homes. At the time we started the project there was available to us subsidized mortgage money for our potential buyers. We are talking about what is called moderate income—and you can put any price tag on what moderate income is—but generally I mean people who are in the neighborhood of $15,000 to $18,000 a year.

These people were afforded an opportunity to buy a single-family home and through the Federal Government HUD 235 program obtain a subsidy for interest. We had some city loan programs that were innovative, unfortunately, they did not apply to new construction. You could buy a 70-year old house in an existing neighborhood, get a mortgage at 6¾ but the new house that I built didn't come under the program. So we had to do some changing so that the city loan program became available to us.

But the one interesting problem that you have with single-family home construction and making it affordable to people is the size of the monthly payment. If you're talking monthly payments of much over $300 a month for what we're calling a moderate-income family, even with the advent of two incomes in that family, you simply price them out of the affordability of buying a home with a little piece of land that they can call their own. And that's still the ethic—in this community, and I think in this country. Ownership of a home is what somebody works for—perhaps for a long, long time.

With interest rates as they are today, house mortgages probably around 18 percent, you simply price people out of buying a single-family home. And yes, if mortgage interest would come down the con-

struction industry would benefit and we would put people to work in housing. But I think the roll-up effect of people living in substandard housing would be able to afford an opportunity to own, to build some stability into a neighborhood, have some people have an interest when they become taxpayers in the community. It is the problem that we're suffering from today and we're losing. So I would hope that somebody in their infinite wisdom on the national level begin to talk about interest rates.

Some other interesting things along that line that I think could be done, too. At least locally, we could benefit from greater use of pension plan moneys for investments that encourage retention, expansion, and maintenance of existing plantsites. It's an approach that we have used in the construction industry in this area for pension funds for a long time.

Representative REUSS. I might interrupt you to say that without you there would not be a Federal office building. [General laughter.]

Mr. ELLIOTT. We are put in the position, Congressman, quite frankly of buying construction jobs out of our pension fund.

Representative REUSS. I don't think that was an uneconomic decision on your part.

Mr. ELLIOTT. No, sir, it wasn't

Representative REUSS. You had to stretch things and I appreciate it.

Mr. ELLIOTT. At the current time out of that pension fund I'm talking about our construction pension fund is in just over $30 million in this four-county area in mortgages. Most in commercial properties. You've just commented on the Federal office building. We participated in that to the tune of $4½ million, to put the total package together for the developers to be able to build. As we did, for example, with the Regency Hyatt: $1.7 million went over there for a construction mortgage. That hotel was built and created I don't know how many jobs beyond the construction work that we generated.

Similarly, new jobs resulted when we have put money in office buildings, warehouses, commercial food restaurants, other places, but the point that I'm trying to make is that there are no other pension funds that are doing that. I think the corporate sector should look at that. We are unique in having pension funds jointly administered by our unions and employers. In the private sector, of course, in industry it's generally done by employer only and the local union has no input into which investments are made, indeed, and what return they get. But I think a corporation would welcome, if only for its public relations value, an opportunity to invest in this community. It could make the money available under the current market rates and still have a prudent investment for the pension funds.

I suppose one could say that's a radical concept. But I think if we're going to turn anything around as far as the interest rates are concerned we have to have some radical concepts come forth.

I'm not interested that pension fund money sits on the guaranteed investment with an insurance company. I'm not arguing with the insurance industry. But I'm interested that pension funds do some things to promote job opportunities both for construction workers and also for others in the community by the use of pension fund money.

On the other side of the coin, pension fund moneys of cities, counties, various municipalities, are generated by taxpayers in that given area. And yes, I know that the pensions belong to the employees of that municipality. I don't argue it's their pension. But I wonder if some of that money could be put to work in this community. We do all kinds of things as far as municipal bonding, making land available, talking about utilities, whatever else that the taxpayers do to retain and attract industry. But I would wish they would take a long look at the use of their pension funds.

If, for example, a public employee for a municipally was afforded an opportunity to take a house construction loan and be able to use that pension money for his house mortgage, I don't think that's some radical idea that's off the wall. Most such employees have a residence requirement; they live in the community where they generate their money, they get paid biweekly, they take off other deductions, they could take their house mortgage off.

What if, for example, an industry who was going to build or expand would have the use of that pension fund money in a construction loan, protecting the interest of the people that are in the plant without jeopardizing their pension fund money in wild schemes or speculations? At least in our view we've proven we can do it.

Beyond that I think we've got to touch on something else. The problem with retention of industry. The problem of what do we do for expansion. That's the whole notion of what's happening with the transportation system in this country.

As you well know this State and others are in serious problems trying to generate money for roads. We are not even talking now of new contruction. We are simply talking about maintenance; where we used to maintain roads in this State on about a 6- or 8-year cycle, some of them have been extended out to 12 and 15 years. And some are not being paid attention to at all unless a truck happens to fall into a pothole. What we do about all the bridges in this State is another major problem. If industry is to have raw material in, finished product out, something has to be done with the balanced transportation system not only in this State but other places in the country. What did we do with highways? What did we do to generate money to maintain them? Indeed, correct some of the problems that we have currently with them. What did we do for example, with railroads? Brother Schmitt, of course, is in the brewing industry and always comments that the breweries in this area, at least the two that are left, are shipping brewers. We do not consume all of the product that comes out of the breweries in this area.

Representative REUSS. We tried, but [general laughter]——

Mr. ELLIOTT. But the plain fact of the matter is that much of it has to be shipped out of here to keep these breweries running at capacity. With the condition of our railroad beds today, the trains can't go over 5 miles an hour. Do we continue to cut off service and abandon particular areas of service not only for our breweries but for other industries that engage in heavy shipping from this area? If we can't ship any other way but rail, do we just abandon them and tell them to relocate some place else because we can't have adequate rail service? What do we do with the whole notion of car ferrys?

Industry uses them to ship across the lake. What do we do with the seaway? This port and others along the Great Lakes? Not only the Federal Government but communities have invested money to dredge them, to put equipment in, buy cranes, do whatever has to be done to be able to service ocean cargo.

And now for all intents and purposes it's being abandoned. Federal policy dictates that we go to a different coast and forget the Midwest. Don't use the Great Lakes. We've got cranes standing down here and we can't use them because Federal policy says they will ship other places.

So I think there's a whole series of things we should look at if we aim to retain or expand industry or attract new industry. Most of that has to come with some direction, as Brother Koenig said; we need a national policy that doesn't vacillate or allow us to go back to the old system the States do as they please. It didn't work then and I don't think it will work again.

And I think with that I'll conclude, Congressman, unless you've some questions.

Representative REUSS. Well, you three have done a remarkable job in laying it on the line here this afternoon. As far as your general economic observations are concerned, on the state of the Nation's jobs and prices and interest rates, as you no doubt have come to suspect after 30 years I'm in your corner and have been trying the same thing basically. To get interest rates down we need a somewhat easier money policy by the Fed, but we need even more to get the Federal budget under control by not destroying the tax system and not letting loopholes siphon off massive amounts of tax revenues. We need to cut down on the speculative borrowing by conglomerate takeover artists, by commodity speculators and the other people who are taking the Nation's credit away from where it ought to be, at the service of people who are building homes, who build things, who put in new plant and equipment which is going to make us more productive and help us fight inflation.

So if we did that, if we got interest rates down, we would at one strike, Mr. Schmitt, solve so many of the problems of Ralph Koenig's auto workers and Jim Elliott's construction workers as well as labor generally. Then you've all been, I thought, right on target in talking about the need for purposeful development of our great industrial resources, Ralph Koenig calls it national planning. Jim Elliott calls it rebuilding our bridges and ports and car ferrys and railroads and highways and plants and construction. If you made more than $50,000 a year you could probably call it infrastructure or something like that, but it would mean the same thing and you'd all be right.

So I just want to express my general agreement with your overall economics.

Now looking at Milwaukee particularly, one of the constructive things that I think is emerging from this series of hearings is this: As you know because you were all involved in it to a greater or lesser degree, we have for once I think done something right, and we're getting on with the job of rebuilding the downtown. That alone isn't enough but at last we're doing that. And if we are going about that right, and I think we are, it's because there was an unusual degree

of cooperation between government and labor and business. We mentioned how labor was in on every stage of it, including its participation in the assembly of the land for both the Federal office building and the Hyatt Regency. Would you think that it is worthwhile to consider whether this ad hoc government-labor-business cooperation on the downtown should now be expanded to the whole problem of how we keep and maintain jobs in Milwaukee? Of course you can't agree with government and business on every point, but doesn't the downtown experience show that one for all, all for one, in unity there is strength, if people can just agree on the goals? Certainly the industrial leaders who were here this morning all subscribe to the goal of an economically healthy Milwaukee and more and more jobs. They didn't take the view that was founded another day among some industrial leaders that if you got more business here that just bid up the price of labor so you can't really want that to happen.

Let me put my question. Do you think there is a future to further cooperative activities?

Mr. SCHMITT. Well, I hope there is because you see my definition of reindustrialization is different than other people. When I talk about reindustrialization I'm talking about business, labor, and the government. But I also talk about using those moneys in the way that's going to improve the community. The problem you are faced with today is many industrialists who are left in this city are not the decisionmakers. They may run the daily operations of the plant but a board of directors makes the production and investment decisions. That's one of the weaknesses of corporate takeovers. The communities no longer have the real leadership, the spokesmen for what's going to happen to dollars. So unless we can do this, and let me tell you the downtown mall is great, if we don't have somebody working and go downtown and purchase the goods from those stores you can kiss that baby goodby too.

So there's a rippling effect, and we better find a way to put people to work. I think Jim raised probably the greatest problem when we discussed education. The workers of the 1940's are all going to be retiring, unless Reagan screws up social security more, within the next 5 years. Now where do we get a skilled work force to replace those who are getting out? Unlike Congressmen—because most of them never worked for a living—our people can't work till 70. It's impossible. Many industrial workers have to leave by age 62 because of health or because of injuries. And by age 65 practically all will be gone.

As I say, legislators can probably work till 90, as I see here, Averell Harriman, whom Senator Nelson refers to. But if they ever got to work in a job instead of working for government, they'd find out that early retirement is important to our people. Our people don't retire at 62 because they're lazy; they retire because they can no longer do the job—the back is gone or something else is gone. So we need the early retirement provisions of the social security system that Congress is now lousing up. So we will need replacements for those 1945–46 journeymen. And we ain't going to get them unless we start putting some dollars—that goes for employers too. There's a lot of good employers who do invest money in worker education, worker training, but there's a lot of them that don't—or won't without government dollars, which are going to be cut back. And so in that area they should own up to

some corporate responsibility because unless we do that we're going to face a shortage of skilled workers and that's going to be a tragedy for Wisconsin.

Representative REUSS. Now, there's been much discussion, both in this panel and earlier, about jobs leaving their hometowns, either because of a merger, or through a plant relocation policy without a merger. Typically, not always, but typically those new jobs end up in nonunion, low-wage areas. Is that not a fact?

Mr. SCHMITT. Let me tell you, Congressman, that's going to take a little creative timing. Those poorly educated workers in the South—it's just a matter of time before they're going to understand and realize they're being duped and they'll rise too, you know. In time. At our expense maybe for the time being but look, we move slowly in the labor movement. The corpse has got a hell of a lot more life than the pallbearers. So we'll be around.

Representative REUSS. Under present Federal law however, union organization in un-unionized areas is inhibited by 14B of Taft-Hartley and other legislation is it not?

Mr. SCHMITT. Labor Secretary Donovan and Senator Hatch and Darlings, it's going to be worse.

Representative REUSS. Let me ask any member of the panel who cares to answer. In Germany and Japan, which have excellent records of economic advancement and which have labor forces that are very largely unionized—both or these countries have been able to achieve remarkable steadiness of jobs, full employment and very little inflation. Some who have studied the labor situation in Germany and Japan attribute this success to two factors. One, there is widespread unionization so you have in effect, one labor market and not two labor markets bidding against each other, the union and the nonunion sector.

Second, those countries have annual wage contracts where negotiating schedules are synchronized. I'm not pointing the finger at anybody but such a system, for example, avoids having auto workers come into a 3-year contract saying, look, steel got this raise last year; and steel says, well the teamsters got this, and the teamsters say, well, the building trade got this.

Let me ask anybody who cares to answer, and the answer will be solely on his own behalf. Would you think it a worthwhile trade for American unionized working people if these restrictive labor laws which now effectively prevent unionization in many parts of the country, notably the Sun Belt, were done away with, so that unionization could become comparable to the level that it reaches in the two countries that I named, in return for going to something like an annual wage bargain? You can see what I'm driving at, I'm trying to get something that will combine full employment without inflation which is what we all want.

Mr. SCHMITT. Yeah, but you know Mr. Chairman, you can do those trade labor movement, we're always negotiating after the fact. I've things if you've got a feeling of sincerity. The big problem with American trade labor movement, we're always negotiating after the fact. I've been to Japan, I've been to Germany and many other foreign countries. And they don't have the feeling of fear like we have. That's where the

real problem is. If you can take away fear of what's going to happen to me when I retire, I can do things differently. But as I repeat right now, even though we're faced with increased costs, we are settling for inferior agreements because sometimes we don't have any choice. So in spite of that, without making the kind of progress we should make, we keep rolling back. Those foreign countries have what we don't have—and I repeat that—a semblance of security. A worker in Germany or Japan, the one thing he has and I think is tremendous, he has a guarantee that during his or her lifetime he and the members of their family can go to a doctor and a hospital and not worry about the cost. The biggest fear of senior citizens in this country is once they retire, what happens when they get a major illness. Every dime they saved is blown out the window. So if we could find a way of giving security to the workers of America, I'm sure they in turn can look at some of the things they can negotiate. But you got to remove the fear that we have. Everybody's trying to make a buck now to stay even. Nobody is staying even. Why is it that the countries with two of the greatest unionized work forces, in Japan and Germany, are at the top in productivity? It makes a liar out of the "right-to-workers" who run around this country.

Representative REUSS. You might also—why does productivity go up very markedly the minute we get something like full employment? Because you spread the fixed cost of per larger number of units, and of course productivity goes up.

Mr. SCHMITT. I don't know how American industry—I don't know how you make an American productive.

Representative REUSS. Anyway, what you are saying, John, I take it, is that, yes, it is part of the social contract whereby labor gets a feeling of security. Then anything is possible including wage arrangements which are less trial by combat than they are today.

Mr. SCHMITT. I'd rather not be in an adversary position if it was possible, but American industry is different from the European industry. There they sit down and try to solve their problems. You know we had the greatest strikes in America after World War II. Why did we have all the strikes? Because we wanted to divide those tremendous war profits. And we had to strike to get them. Now we're going through a different period. Now they want concession bargaining. That's the problem here.

The German industrialists don't love the unions any more than they love us over here. But they're smart enough to work together to get the end result. And I hope we can do that some day. Maybe around the corner. But it's going to have to come from the other side. We're willing to work, hell, we work in any kind of a community project if it's in the interest of the community. But by golly when we're going hungry and getting kicked at the same time—as long as American industry is going to use all those profiteering dollars to promote committees for the free environment and "right-to-work" like Reed Larson and the rest of those clowns how in the hell can we get along. They're spending millions to knock us out of the box. If they cut out that malarkey, maybe there's a chance we can recognize they do want to cooperate. They want to cooperate here, but outside they're spending all that dough to knock the hell out of us. It ain't going to work.

Representative REUSS. Among the most significant and I think educational things which I heard from you and your colleagues this afternoon was this: Both Koenig and Elliott, you mention and in talking about your workers and these two unions at least, the auto workers and the construction trades, represent, if not the Koenigs of American labor, at least well-paid workers.

Mr. SCHMITT. We're better off than the textile workers, let's put it that way.

Representative REUSS. Now, both said in effect, look, our people have always been willing, good natured and good humored about working hard and paying taxes, part of which went to help people poorer than themselves. I think you mentioned that specifically and so did Ralph.

One of the things that worries me about the horsing around with national economic policy is the effect on the middle class. High interest rates hurt this group by hurting borrowers, not lenders; Federal programs that benefit middle-income people, such as college loans and public radio, are being cut down or cut out; that tax program gives middle-class households nothing after you figure the totality of their taxes in their brackets. So they are seeing a worsening of the situation which the late seventies steadily grew worse under the Democrats I'm ashamed to say. How can you expect the middle class in America to continue its tradition of generosity toward those less fortunate, even people living abroad? Union members have tended to say, well, sure, the Marshall Plan or the Point Four program, I may not love it but we're doing all right and we'll go along with it.

All of that is now turning sour and the same hard-working, tax-paying average Americans are beginning to look for scapegoats, other Americans, welfare mothers who somebody tells them are getting away with murder—don't you sense something like that going on and is that what we want in this country?

Mr. KOENIG. Mr. Congressman, I feel very strongly about that. The President of these United States and what I term the three shylocks of this administration, the other Regan and Stockman and certainly the head of the Labor Department who almost like a fox in charge of a chicken coop these days, talk about balancing a Federal budget, and they're not really balancing anything, but what they are doing by suggesting that you cut social security, by taking away food stamps, by taking away hot lunches for children and the elderly and I could go on endlessly, have created and are trying to create to an even greater degree a fear psychosis in these United States where they pit people against people. And you find the elderly sitting in a room saying, I need mine but that other elderly person, what's he getting that I can take it away. And that's trying to divide up economic scarcity in the richest country in this world today. And I claim it's doing the United States a great disservice.

Now you raised the point about the dialog between Government and the labor movement. Certainly that's good. And we will always be willing to participate in that. In fact, we'll beat the path to that door. Because if we can have input we can have better understanding. But what I suggest to you as the autoworkers go back to negotiations this coming year, that job security will be the priority issue because jobs are what makes America go. And as John says, job security is what is

in fact the major thing that makes the Japanese industry go and the rest of the world go. Lifetime jobs in Japan. And I could go on many other benefits that the press never talks about when it discusses industry in Japan versus the United States. Job security will be a priority item. And with that comes the great fear that I have. The dialog that you mention can take place providing we can get the economics of the Nation back on the course they taught me in Milwaukee schools. And that is the law of supply and demand has a direct relationship to prices. I don't know what happened to what my teacher taught me.

But starting back in the Eisenhower recessions of 1953 and 1958, I submit that the law of supply and demand was thrown out the window. And as unemployment grew, prices went up. And prices had no relationship to unemployment. And the very same thing is happening today. We live in a world of administered prices, not competitive prices any longer.

The other thing that bothers me in this is the absence of Government contracts—in the military, for instance, in Wisconsin. You have to look more closely at what is being poured into the Pentagon and poured into American industry. You will find that I have a great fear that once again through this administration are we really building a military industrial complex in America? And I hope not because you cannot have a sound economy that lives on a military industrial complex.

I might also say that all the tax dollars that are going into the military, and I want a strong Nation, I really do, but you know I go back to the 1960's when General Maderus was in charge of what then was called our atomic engineering programs. And at that time General Maderus already said that we in America had a nuclear killing power equivalent to 20,000 tons of TNT for every man, woman, and child living on the face of the Earth. And what have we done since? It leaves me with "see how much killing power", however overkill do we need? I guess my real question is, my real fear, is if our economy is to be based on the very, very, very inflationary practice of building military hardware which becomes outmoded—you scrap it, you dump it and you do get things but you never use it—if our economy is going to be built on that, Mr. Congressman, I have only one question: where does it end? Is that all there is? I think there's got to be more than that. I think we can win the hearts and minds of people and the friendship by sending them textbooks, medicine, and food. We don't have to supply them with weapons of destruction to kill each other off and eventually kill ourselves off. And that is where I think we have lacked. We have poured into the military and we even say how many jobs it creates. And we make enemies throughout the world.

[Discussion off the record.]

Representative REUSS. Mr. Elliott.

Mr. ELLIOTT. Mr. Congressman, I'm not as well equipped as Brother Koenig, because I talk construction language, I think what you are seeing in this country is somebody taking advantage in the frustrations people have today. And I know it is particularly true with our people. We have had for probably 25 years employment levels that were relatively stable. Now construction work has peaks and valleys to it—our people are aware of it—but at least they knew for 25 or 30 years in

their worklife they could work as a carpenter or a bricklayer or what their chosen profession was. Now they do not see that opportunity. And they begin to strike out on a frustration. And the concerns that they have is how they are going to finish out their life, and what they are going to be able to provide for their children. And the job opportunities for their children. And as we commented earlier, yes, our construction workers are smart enough to know that government must provide those services that private enterprise cannot make a dollar at doing. And yes, they are willing to pay their taxes to do that.

If the private sector could make a dollar on certain kinds of health care that we have to provide for the elderly with Federal dollars or for children, the Government could get out of it. But there are many services in this community and this country that simply cannot be done for a profit. They have to be done because this country has to do it. And our construction workers are willing to pay for it. There is no question about it .The problem is, where do they see down the tunnel the security of work?

Represenative REUSS. Gentlemen, you've been very helpful. I like what you said. Thank you for giving us your time and let's continue to work together.

Mr. KOENIG. Thank you for the opportunity.

Representative REUSS. We will now hear from the University of Wisconsin at Milwaukee, Chancellor Horton and associates.

Welcome, Mr. Horton. We're delighted to have you here and we welcome too, your associates. Will you introduce them for the record?

Mr. HORTON. Certainly, Dean Eric Schenker from the School of Business at UWM and Professor Ronald Heilmann for the Financial Institute of UWM.

Representative REUSS. You do have a statement, Chancellor Horton, which I thank you for getting to us, it will be placed in the record in full and you can now proceed in any way you'd like to take.

STATEMENT OF FRANK HORTON, CHANCELLOR, UNIVERSITY OF WISCONSIN AT MILWAUKEE, ACCOMPANIED BY ERIC SCHENKER, DEAN, SCHOOL OF BUSINESS; AND RONALD HEILMANN, PROFESSOR, FINANCIAL INSTITUTE

Mr. HORTON. Thank you. First, I'd like to congratulate you for holding these important hearings in Milwaukee and thank you particularly for the opportunity to speak to you and also for arranging it in a way that I was able to make both the board of regents and this meeting.

I appear before you wearing two hats. One hat is well worn and comfortable, that of university professor and chancellor. The other hat is new and still being broken in. It is that of the cochairman of the goals for Greater Milwaukee 2000 project. I'm here to say that we are prepared to talk about the erosion of Milwaukee's business and industrial base. But we are also joining forces to develop viable goals for the future. Above all, these goals must be realistic, practical and accurately state the situation we face today.

In our efforts, we are trying to avoid the tendency by many to place blame for the state of economic conditions within the Milwaukee area.

Some have cited businessmen concerned with short-term profits, investors seeking high dividends at all costs, out-of-State firms seeking control of owned companies rich in cash or assets. We do not seek to blame any or all of these factors. We do seek the tools and methods to create positive change. There is much that can be done locally; at the State level, and there is much that can be done at the Federal level.

As chancellor, I spend a good deal of my time talking to business, labor, political, and civic leaders about university issues. What I am finding is that the state of the economy, concerns about international events, and forces beyond the control of our national leaders have people taking an introverted, shortsighted approach to many issues, including the value of research and higher education.

Rapid and dynamic change is all around us. For communities like Detroit and Cleveland, such change has brought economic disaster. These communities have failed to maintain and rebuild vital public services like streets, schools, and sewers. Their business and industry was too heavily dependent on heavy industry, primarily the auto industry.

Their present and future looks bleak. Their major mistake was to bank their future on the ingredients which formed their past success. Strategic location on the Great Lakes and east-west rail line, proximity to raw materials and availability of highly skilled industrial workers no longer provides assurances of economic success. The Midwest should look not to the South or the Sun Belt for the keys to its future, but to the older industrial cities on the Northeast. When older industry left for the Sun Belt, cities in the Northeast, like Boston, found abundant resources in their people and their universities. They began spawning cleaner, high-technology industries and created many new jobs. The quality of life helped keep highly qualified people in the area, many of them starting small, new companies that expanded rapidly in the new areas of enterprise.

There is ample evidence that we must begin such activities here. The portion of our nonagricultural work force engaged in manufacturing is declining rapidly. In 1960, 39 percent of Wisconsin's nonagricultural work force was in manufacturing; by 1979 that figure dropped to 29 percent. In the Milwaukee area, 43 percent of our work force had engaged in manufacturing in 1960. That figure dropped to 31 percent by 1979. A recent study showed that our region is falling far behind in the growth of high-technology industries. The heavily industrial Great Lakes States have only 3.7 percent of the total number of jobs in this rapidly growing part of our economy.

A study of manufacturing industries published by the U.S. Department of Commerce last year found a steady shift during the 1970's of nonelectrical machinery production from the Great Lakes States to the South and West. The nonelectrical machinery production is the No. 1 manufacturing employer in both Milwaukee and Wisconsin.

In one respect we are placing a heavy mortgage on the future of our young people, our economy, our technological superiority and the basic strength of our universities. We are in the midst of a scientific revolution that is sweeping the world and we are losing our lead. We are reaching outward into outer space and inward into the innermost re-

cesses of the human body to expand our knowledge and improve and prolong life. New products and new ways of producing them are discovered every day. Yet our economy is in turmoil, government budgets are being slashed and the quality of life is being threatened. Worse, our future is in doubt as a world leader in industrial and technological advancement. Our national priorities seem to be filled with contradictions. We should all be alarmed about the serious change in Federal and State attitudes toward support for higher education as a critical investment in our future. There appears to be a growing attitude that research and education are unnecessary frills, a form of inflationary, unproductive spending that does not provide immediate, tangible benefits.

What is most bothersome about these notions is that they come at the worst time in our history. Our productivity and technological superiority as a world economic and military power are being challenged. Japanese steel is crippling our domestic steel industry. For the first time in our history, Japanese automakers are producing more cars than the U.S. automobile industry. Japanese televisions, motorcycles, stereos, musical instruments, cameras and sophisticated manufactured products dominate the American market.

The Japanese owe their success in part to learning from other people and other countries. They took good ideas and implemented them. More importantly, there is an attitude driving this success among Japanese and their leaders. There is an intense respect and quest for education among the Japanese people. There is a commitment among Japanese industrialists to long-range research and development efforts. There is an understanding that the way to defeat inflation is through higher productivity, and that the way to higher productivity is through a better trained, better educated work force, improved technology and well-planned, long-range capital investment.

There seems to be a narrow view in this Nation that the effort to put more money into the hands of investors will raise more capital for industry and that this initiative alone will revive our economy. Such an attitude is unidimensional and shortsighted.

If we are to accelerate economic progress and improve productivity, then clearly an increasing investment in science and research is an absolute necessity. But at this critical time, public and private investment in research is on a downward spiral.

During the period from 1968 to 1980, research and development as a fraction of the Federal budget decreased by 38 percent and decreased as a fraction of the gross national product by 19 percent.

Basic research decreased by 27 percent as part of the Federal budget and by 16 percent as a fraction of the GNP.

Scientists and engineers engaged in research and development, as a fraction of the U.S. labor force, decreased by 9 percent.

Investment by U.S. industry in research as a fraction of new sales decreased by 29 percent. Much of the research that did occur centered on meeting environmental and regulatory requirements, rather than developing new products.

The trends for the same time period in other countries were somewhat different. Research and development as a fraction of GNP went up by 19 percent in Japan, 14 percent in the Soviet Union and 16 percent in West Germany.

Scientists and engineers engaged in research and development as a fraction of the labor force went up by 70 percent in Japan, 62 percent in the Soviet Union and 75 percent in West Germany.

These comparisons indicate that other countries are moving forward to challenge U.S. leadership in science at a time when we are slowing down and shifting priorities. More important, virtually all of the Japanese and West German research is focused on the civilian sector. By contrast, in the United States more than half centers on defense efforts. Defense research and development is vital for our national security, but civilian oriented R. & D. may well translate more directly into economic strength and progress.

Let's take another measure of the differences between the United States and nations that are challenging us economically. Let's look at productivity—output per worker—between 1968 and 1980. In Japan productivity increased by 70 percent and in West Germany by about 60 percent. In the United States it increased by only 18 percent. Japan and West Germany are examples of countries that have grasped the importance of education, research, and science to modern society and they are not alone.

There has been a deliberate shift in the Soviet Union from the traditional Marxist view that labor is the key to productivity. Soviet political leaders are now focusing on the role of science and technology and the advancement of knowledge to achieve economic stability and growth.

At a time when other nations have been increasing their emphasis on science and research, the United States appears to be faltering. In fact, basic research has often been the target of ridicule by political leaders and the media, who portray it as a fleece of the taxpayers.

Major breakthroughs in the future will depend increasingly on basic research. But in a depressed economy, basic research is the first target for budget reductions by Government, private industry, and even universities. Such a strategy reduces the potential for increases in productivity and for the development of new products.

The severity of our energy problems and the pressing need for higher productivity to be competitive in world markets may offer Wisconsin and the Milwaukee area in particular reasons for hope. A recent study by the U.S. Department of Commerce into ways of improving Wisconsin's economic future found both good and bad news and I quote from that report:

> Most viewers of the State's economic scene recognize its factories are aging, its labor costs are high for work requiring low skills, its education system is excellent and produces well-skilled employees. Since some of the negatives cannot be corrected without massive infusions of capital, there are additional factors which may be developed as tools for building on the State's present strengths.
>
> While other States lure industry with tax incentives, greater markets, and access to supplies, Wisconsin's technological innovation and skilled labor, coupled with nearby raw materials, also can be a magnet. As long as the State provides high grade technological training, it will produce entrepreneurs with the ability to design and produce new products, and the production facilities will develop here. As firms grow larger, the tendency to move out, merge or be acquired grows. A healthy base of emerging plants is one method for combating a net loss.

For decades Milwaukee has prided itself on being a locally owned, tightly knit industrial city. In contrast to Chicago, Detroit, and Los Angeles, the core of Milwaukee's economy has been thought to be

characterized by family run, medium-sized businesses whose concern for profit was supposedly matched by their desire to preserve the quality of life in Milwaukee. The truth is that Milwaukee's economic health is only skin deep and the last decade has seen the industrial and business base badly eroded by large corporations building major plants in other States and the takeover of local firms by larger corporations headquartered elsewhere.

It should seem obvious to our business civic and political leaders that a good strong educational and research base is a key to our economic future. We need to do a much better job in how we share and apply research, education, and new technology. I see an important need for a technology clearinghouse in the Milwaukee area. I see the need for a research and training center to coordinate and conduct industrial research and retraining. I see the need for local government to conduct and share in research programs to make our metropolitan area more efficient with every tax dollar collected. I see the need for greater cooperation between universities and the public and private sectors in the areas of research and technological innovation.

Finally, I see the need for matching or private funding in addition to Federal and State funding for research as sources of public support are reduced during the current budget reduction cycle.

I am deeply concerned that this notion may not be widely held in the business community. Let met cite two references.

First is a survey of business leaders reported in The Milwaukee Journal earlier this summer. A major reason cited for the lack of new technology or growth companies in Wisconsin was the fact that the business and academic communities have not worked together nearly as much in Wisconsin as in other States.

The survey also painted a bleak picture for future economic growth in Wisconsin because business leaders gave in to pressures for short-term, high-profit activities at the expense of research, development, and long-term capital investment.

Rather than debate how close the newspaper article was to the truth, I would like to accept the challenge that we must do better and work harder at this very important task—expanding the use of new technology for growth.

My second point of reference is a speech given by Frederick P. Stratton to the Society of Automotive Engineers.

In it, Fred attacked the problem of declining productivity head on, calling for tax policies that encourage savings and capital investment, encourage research and development, and shift emphasis from consumer goods to producer goods.

Fred said he saw productivity as a function of four things: Effort, organization, technology, and capital investment. I quote:

> It is not enough for individuals to work hard. They must be organized in such a way that they work together, assisted by technology financed by capital investment.

Here is where I find room for optimism and agreement. We need to find new ways and reinforce existing ways to work together. We need a working partnership between educators and scientists, business people and industrialists. The driving force behind greater productivity has been and will continue to be organization and technology. We at

the university should be at the cutting edge of developing new organizational methods and new technology and adapting it to more productive uses.

Capital is important and will continue to be important, but without innovation, it is not very effective. Enormous volumes of information and technology are created by university laboratories and government agenceis, yet much of it lies dormant, little is transferred to small companies and individuals for conversion to new or improved products and services. Similarly, large stores of underutilized technology exist. Most firms use only part of their technology in their own commercial activities. The remainder may have commercial applications elsewhere but is left unused for the good of our society. It has been proven that small organizations are highly effective innovators and have, in recent years, created the majority of new jobs in most western countries. Also, it should be noted that they are the best source of more urgently needed jobs for young people and handicapped persons. The variety and flexibility of small enterprises enable them to employ effectively many of those who do not fit easily itno the standardized employment patterns of large firms.

How do we enter the decade of the eighties on a more positive note? First, we must identify our strengths and build upon them. We have a great research capacity at our public universities and a storehouse of technology among our many industries that should be put to work to create new growth.

We need to find ways at both the State and local levels to aid and encourage the development of new, small industries and businesses that can grow into major employers in the future. We need a research and technology clearinghouse to share the expertise we have with new business enterprises. To help small businesses survive and grow, the UWM School of Business Administration has helped establish a federally funded small business development center here in the Milwaukee area. The center helps small business with services they probably would not get elsewhere. We need to do much more and we'll need advice. We have already begun to explore with various groups ways of forming a partnership between area businesses and the university.

We have a source of strength in our people and our educational system.

I would like to propose a new working partnership between the city, the private sector and the university to harness the most important resources that we all can provide in a way that has the greatest potential for success. I would like to see a quasi-private, quasi-public economic development agency created to spawn new businesses and industry in Milwaukee. We already have a working model in the Milwaukee Redevelopment Corp. I would propose that our new economic development corporation work along the same lines, using the advantages provided by the city's tax incremental financing powers to acquire and develop real estate, the new legislation permitting the creation of free trade zones and a technology transfer center to provide new product and manufacturing expertise along with investment capital and real estate to emerging new industries. I believe we could combine the best minds and resources of the university, the private sector and the city in putting new energy and new resources into our economic development efforts in Milwaukee.

Wisconsin has a strong tradition of high quality public education through the university level. UWM is identified in developing career fields helping to train people for them. UWM has provided people with new "earn and learn" opportunities, so they can afford to educate and retain themselves.

I'd like to take issue with a statement made earlier today by Mr. Rouse and supported by you, Mr. Chairman. The notion that universities have not contributed to the vitality of urban communities is not correct. At UWM we draw 90 percent of our students from the metropolitan community and return almost as many to live and work in the Milwaukee area. Ask any of the business executives who testified before you today to investigate where is the largest single source of trained and educated employees and they will come back with the same answer. The University of Wisconsin-Milwaukee. And we to a growing degree are the key to their future.

Whenever we have been asked to be helpful we are proud to respond. Now you may say that that is too passive a role that we should have been doing the asking. My response is that we are going to be more assertive and will be doing the asking. We will be seeking partnerships with the private sector and the local government. I can cite one fine example of how we can help spawn the new generation with industry and interest. The key ingredients I see necessary in our future economic growth are, 1, the development, transfer and adaption of new technology to create new industries; two, the ability to combine venture capital and business expertise with the new manufacturing enterprise; three, the active cooperation of government to help find a good location and develop plant facilities for the new enterprise and a suitable tax environment; and four, the strong continuing partnership with the nearby public university to provide skilled, educated employees, and the research capacity to keep our economy at the forefront of new and developing fields.

I would point out that of approximately 27,000 students, 80 percent of the graduates of that institution stay in the Milwaukee area and work in the Milwaukee area. Approximately 70 percent of those students are working in the Milwaukee area while they are achieving their education.

I would also point out that given the basis of the formula funding that this State runs its public education enterprise on, the amount of funds that we receive are not based on our service capabilities but rather on the number of FTE students which seems in some ways to limit our capability to work in a service context with local industry.

We face many difficult economic decisions now and in the years ahead. Many of the choices we make today will affect Milwaukee's strength for the next several decades. It is clear that this area's long term will be tied directly to our own creativity and perseverance. The level of support provided to develop and maintain a solid stable base of research support and the capability to transform knowledge and see it used will be an important indicator of our future economic strength.

[Discussion off the record.]

Representative REUSS. Were you through?

Mr. HORTON. Yes. I'd like to have Dean Schenker make some remarks and also Professor Heilmann.

Representative REUSS. Before doing that, let me just say that it isn't a matter of transcendent importance, I really think that you got Rouse and Ruess a little wrong. We really didn't go criticizing universities or urban universities across the board at all and let it hereby be stipulated that not only do you get 90 percent of your students from the urban area but that you return them to that area. What we said was that we thought that urban universities could do more by way of research and development and cooperative activity with area industry. Which is exactly what you say, too. Not that I wouldn't enjoy disagreeing with you on some subject but we don't disagree at all on this one.

Mr. HORTON. I'm glad to hear that.

Representative REUSS. So now let's hear from Eric and Mr. Heilmann. I did want to get the record straight on that.

Mr. SCHENKER. First, Congressman, I certainly appreciate the opportunity, also I would like to say that I've enjoyed working with you for more than 20 years. We've known each other and I'm sorry to say that we'll be losing you in Washington. Certainly in the past 20 years you've been very helpful to the university as well as to the city and when I was chairman of the Harbor Commission you were always ready in Washington to help—not only Milwaukee but the Great Lakes region. So I just want to say congratulations for a job well done.

Representative REUSS. Thank you.

Mr. SCHENKER. Now your question obviously is very timely. Obviously, most of the problems faced in Milwaukee are not unique as you know. I was in Cleveland several weeks ago. They have similar problems. The Great Lakes region have similar problems. And I first want to emphasize that most of the problems really—if you want to call them problems, are really created in Washington. Because we have very little control over Government policy. Yes, we have a Representative, but that's one vote. And certainly if you look at the impact in Wisconsin, Milwaukee, what happens in Washington on taxes, what happens in Washington on budget cutting, on money supply, deregulation, on energy policy, interest rates, the dollar, prices, jobs, many other things, really have such a great impact on all communities including Milwaukee. So that when you say Milwaukee or any region has a problem, certainly the economic condition of the Nation has a major role to play. And certainly if we look at the economic conditions of the United States we see a relationship to what's happening in Milwaukee. So when we say many of our industries have problems, certainly we don't foresee any major upturn until next year sometime. We should realize that we're talking about problems that were not unique in that many of the conditions are beyond our control.

We have about 35 percent of the population in the Great Lakes region, and have 42 percent of the Nation's industrial activity. We have 50 percent of the agriculture output; 25 percent of the mineral production. One-third of the exports of agricultural and manufacturing is from this region. So there's a region that has a great deal of resources and industry so we have many things going for us plus we probably have—I would say 60 percent of the major research and university training in the Great Lakes region.

So we have a great university talent in this region including Wisconsin. We have the educational potential as well as the industry to solve our problems. In terms of corporate takeover, what you have indicated and my files go way back—I went through my files on corporate takeovers—I counted there will have been 1,000 takeovers in the State of Wisconsin over the last 10 years. So they average about 100 a year, which was surprising to me; it's a substantial number.

Again, Congressman, I would say that then takeovers are encouraged by Federal policy. The tax laws that again are created in Washington encourage takeovers. So it is not that we have done anything locally to encourage or discourage this. Now, we have to take these things as given, plus the industries that we have, and I might add that Dr. Heilmann will discuss a study we have done, it's the second edition of the study of the employment and manufacturing aspect. We have been studying this for the last 8 or 10 years, and it's not a surprise to the university or to industry what type of industries we have. They have old plants and excess capacity and are the type of industries that possibly would expand in other regions for various reasons. So we basically have all these facts, we know the givens, and the question is what do we do about the problem we face. But I think we should look at this again from the postive side because we do have the manpower, we have the industry, we do have the educational facilities, we do have the water supply, we are in fairly good shape on the energy side, even though energy policies are partly beyond our control in terms of what rules and regulations are passed in Washington or deregulations and so forth. We really have the ingredients to have a sound economy in the future. Certainly in the short term as you know we are facing a recession. And I certainly think by the end of 1982 interest rates will be down and things will be turning around.

As you know, Congressman—you appeared in one of our seminars on labor management in the eighties, Bert McNamara is now working with us in the business school and you appeared in this—we're trying to have a series of seminars and studies to work with the business community, work with government to identify the problems and try to make people work together. The university is not a policymaking organization nor should it be. All we can do is provide the environment for people to meet together, identify the problems and basically it's in the hands of the elected officials to make the policy choices and that's the way it should be. So all the university can do is to provide the environment, provide the studies, provide the information and obviously the elected officials have to come to the basic value decisions.

When I'm talking about Washington, talking to the business community, I should add that we do have a problem that I would call image. Whether we like it or not, businesses do feel that the attitude and atmosphere for business right now is not the way most business people feel it should be. And let me say, to be fair, an example of this, involving our tax laws. It is not the taxes that business firms pay—that I think has been corrected—it is the levels of the personal taxes. I had lunch with four partners of a leading accounting firm. They pointed out Federal legislation again on inheritance taxes and so forth

that has been changed, and the change is not being made in the State of Wisconsin. It's forcing more people possibly out. We're having people who are retiring who are being told——

Representative REUSS. If I may interrupt, they must be packing their nightshirts in a great hurry because the Federal law was only passed a few weeks ago.

Mr. SCHENKER. I know, I'm saying this is the advice that they had. [General laughter.]

No; I'm saying if in the future you can get further deductions and you can't get them in Wisconsin, the advice that the people are getting is to leave the State when they retire. OK? And this is happening. And this is unfortunate. So you still have personal taxes that are being imposed on inheritance, on certain areas which still reinforce the feeling that Wisconsin is not the State to stay in. Whether this is right or wrong is another issue. If this is what people feel or say, decisions will be based upon that. Many corporate officers' decisions are based on their own personal taxes. And I think if you talk to the legal profession, the accountants who work with people, they will tell you this. This is still a problem, which has to be corrected in Madison. And I think it can be corrected. So if the atmosphere and the basically climate is such, I think the situation can be reversed. We are still somewhere between 6 and 10 as the highest taxed State in the Union. We certainly have to do everything possible to make the climate such that business will want to stay in Wisconsin. Because that's what creates employment.

So I think the only things the university can do again is try to bring the parties together, try to communicate what the problems are, and hope that we can have a type of environment that the people can work together rather than pointing fingers at each other. Because we're not going to solve the problem if the labor says it's Schlitz' fault they moved out, management says, no, it's labor's fault and government says, no, it's so and so's fault. Government, labor, management, and the university basically have to sit down together and try to resolve these. I think the chancellor indicated some ways of how this can be done. And I think, I at this point, I'll stop and let Mr. Heilmann continue. We'd be quite willing to answer any questions you have.

Representative REUSS. Thank you very much, Eric.

Mr. Heilmann.

Mr. HEILMANN. My objective is to make just a couple of comments about some specific efforts that we're taking at the university to accomplish what has been mentioned earlier and that is how we can come closer to working with the business community—the community in general with which we exist, the labor community, to achieve this cooperative attitude and this learning from one another.

In my capacity at the university as the director of the Management Research Center, our overall objective is to foster contact and cooperation between the southeastern Wisconsin business community and the School of Business faculty. We do this because we feel we share with this larger community—the common objective of solving problems through the application of new and effective techniques which have been largely developed by our faculty. To achieve this objective we've set up a couple of goals. The first of these is to become recognized as a problem solver and knowledge-sharing resource for

southeastern Wisconsin. We offer through the faculty high-quality research and educational assistance to the firms in the area. This covers the full spectrum of business activity, be it financial reporting, marketing analysis, economic forecasting, operational efficiencies, financial and investment analysis, quality control, cash flow program, organizational design, management information systems and so on and so forth.

The second goal of the center—the saying goes, there's no thing as a free lunch—is to facilitate the pursuit of funding for these activities. These are extra activities for the faculty and as such we have to strive for specific funding. We, of course, in the past have turned to the Government for some of this, organizations such as the National Science Foundation, but we also looked to public and private grants at both the national and local levels.

Some specific examples of how we've tried to achieve these goals, Dean Schenker has already referenced the labor management in the eighties seminar that we held at which you consented to be our luncheon speaker. We had over 150 labor and industrial leaders from southeastern Wisconsin in attendance at that, and there was an open dialog. Precisely the kind of thing that again had been referenced by both Chancellor Horton and Dean Schenker as something that needs to be accomplished, these people sitting down and talking to one another.

We have engaged as we've said in knowledge sharing, particularly of technological information. This center sponsors a series of meetings called forefront. Every other Thursday morning during the academic year we have members of the faculty give short presentations, approximately an hour and a half, hour and a quarter, to members of the business community who choose to attend, to share the results of their latest research. This has been very successful and again has been an opportunity for open dialog between the university and the community within which we exist.

As an example of some of the types of problem solving or research that we've undertaken, Dean Schenker has referenced a recently completed study. This was published last summer. It was entitled, "Employment Related Industrial Development in Milwaukee." It was offered by two professors of the School of Business and myself. Some of the findings that we had I thought were of interest. When we looked at the general subject of this hearing, what's happening to the outflow of jobs in the Wisconsin area and the Milwaukee area in particular, we found, for example, that during 1960 to 1970 the manufacturing sector had expanded at a slower rate than the national average. But when we tried to translate that into jobs we felt sure—we projected there should have been 18,000 jobs created in the Wisconsin area as a result of just general economic growth. If we had followed national trends. We had only 10,000. So we had a shortfall in the creation of new jobs of about 8,000. And we feel that's a rather significant figure.

When we looked at 1972–76 period, the data indicated that there was a shortfall of about 6,000 jobs, again relative to expected growth; in manufacturing, there was an actual decline of over 3,000 jobs. So not only did they not follow national growth trends, they actually

declined locally. And given the tremendous importance of manufacturing in the area, that is, I think, a very significant finding. But there were bright spots, too. We determined, and this was using Department of Commerce figures, that as of 1976, Wisconsin ranked as the Nation's 12th largest exporter of manufacturing commodities, which totaled over $2.2 billion. But the interesting thing was that during the 1972–76 period this represented a 141-percent increase in exports, only over that 4-year period, and in contrast the Nation increased by only 127 percent. So it wasn't a lot better but it was better. So we outperformed the Nation in that respect.

The other thing that was interesting about that export growth figure was that our growth in population was 67 percent, which means that the export portion was disproportionately large. And again in looking at these figures; exports were responsible largely for that growth that took place in the 1972–76 period, and in fact, when we looked at the exports as a total of production—manufacturing production during that period, they increased from accounting for 4.3 percent of Wisconsin's total production to over 6 percent. Again, this is just one indication of a very positive development.

What does this mean in terms of jobs? I think it's very important. It was estimated that in 1976 over 32,000 jobs in the State of Wisconsin resulted directly from exported production. And we're talking about foreign exports here. And about 17,000 jobs, or over half, were in the Milwaukee SMSA. And we found that for the Milwaukee SMSA manufacturers, an average of $67,000 in export sales directly supported one new job in the SMSA. And so we feel that efforts that the university and the community can make should support exporting activities of firms, especially small companies who haven't the same expertise as larger companies in developing their foreign markets, can be very beneficial to the community. Again, this is just an example of the kinds of things that I think we can do and share with the community. Along the lines of the seminars of which you were a speaker, we are now attempting to organize as many as 40 similar seminars each year to share the knowledge of the faculty with the surrounding community. It's been very successful where we bring in speakers of national stature to talk to our business community, and we have averaged over 800 business, industrial, and labor leaders in attendance at each of those talks that we have sponsored so far. Again, I think it's evident that we are very involved with this community and have every intention to continue that involvement. Thank you.

Representative REUSS. Thank you. Thank you, Chancellor Horton and members of the panel. I have personal knowledge of and am full of admiration for the cooperative role toward the greater Milwaukee community of your business administration department, your management research, the urban studies—I may not have names exactly right, but you know what I mean—your architecture and planning school, and several others. Discussion at this hearing, however, and I think this is what Jim Rouse and I were talking about, has centered on what you quite properly called technology transfer. I suspect that is a little more to do with your engineering schools and your science departments.

Mr. HORTON. Right.

Representative REUSS. And it's in that area that of course we drag out the examples of Stanford and MIT and say, why aren't you more like Stanford and MIT which isn't fair because they happen to come along at a particular time with a particular set of disciplines. But let's concentrate on the technology transfer which is a very large part of the ideal you present in your excellent paper here today, and is very much in the mind of every panel we've had before us. So the question is, can, in the future, the UWM do more in working with industry in this area by way of research, applied research and technology transfer?

Mr. HORTON. Let me say first I think one of the problems UWM had in the past is the lack of knowledge in the community as to how much is going on at UWM. Very often, as you are well aware, as people go about doing their jobs and doing the things that they're supposed to be doing it's not necessarily a media event. It's often the flip side of that that takes on some news connotations. But I would agree with you that the technology transfer is an important issue and one which we will continue to focus on. I think with the development of our engineering and applied science school, those technologies related to business fields such as management information systems which Eric has alluded to earlier are areas of increasing importance. We have now developed about a six-person faculty solely in the area of management information systems. And they come to us from all over the country. I think we're in a situation where we have to carefully target our resources, because they are constrained, or may become more constrained, so that we can identify those areas with which we have the greatest opportunity to assist the Milwaukee area.

There are also other areas which are less well-known such as the center for surface studies at UWM. It has an international reputation. It deals with issues of how materials operate and what happens to them under various kinds of stress situations, extreme stress situations, which are related to the silicon valley issues of the west coast.

It's often interesting to me that we host people from Japan and we host the people from Western Europe and we host people from the Soviet Union regarding the activities of that center, and yet in order to garner interest in the Milwaukee area it's a much harder task. This I think is a natural evolution of having an institution grow up in one's backyard where there's an expectation, yes, the institution is there, it is doing fine, but somehow experts have to carry a suitcase and get off of an airplane before they have some credibility. I think there's increasing recognition that the kind of technologically related activity that we are involved in is getting that recognition. I think we have to do everything possible to make that easier. There's a new firm that was developed—it's been funded and working through with Karl Moebius called Fiatron Systems, Inc., which has as its vice president a recent Ph. D. student graduate from our chemistry department for example. I think we're beginning to see those kinds of spinoffs that have the roots of technology transfer. It's not only us saying, what's out there, it's also a matter of proving the kinds of people with the capabilities to immediately move into industrial settings.

One of our problems, quite frankly, is what I alluded to earlier, and that is increasingly as our resources become constrained and in-

creasingly as they are based on student enrollment, alone, our flexibility—internal flexibility to deal with some very important issues both from a research standpoint and from an educational standpoint become more limited. That's not a complaint, I think it's just a statement of reality.

This month, for example, we had the highest amount of grant and contract activity at UWM in its history. In a single month we brought in over $1 million of research funding in the grant contract area. That's the highest in our history. We anticipate an increase this year again and a record level which will push us in excess of $10 million. Not all those areas of research are in high technology areas, but I think it's a very real credit to our faculty who are seeking to help in the endeavor of supporting research in the Milwaukee area. And bringing in $10 million to the Milwaukee area is not bad in and of itself as an economic factor. I think our faculty are convinced and are working hard to pursue that and to help build that kind of relationship with an appropriate industry in the area.

Representative REUSS. I think you're on exactly the right track, and I would make two or three suggestions in connection with your presentation here this afternoon.

First, you speak quite properly of your desire for government, business, labor, academic cooperation and that's great and I hope we achieve that sooner rather than later. And there is a general receptivity to it from all those groups. But don't wait until the ultimate is achieved. Do your thing right now as you are doing and you're off to an excellent start.

Second, it may be that your scientific and engineering community at the university has been hiding its light under a bushel. You spoke of the excellent material stress center and simply because they're here they may be taken for granted. That suggests that maybe marketing is in order, ignoble though that might seem. I point out that you have on your faculty, though maybe not in those particular fields, superb marketers, and two of them are sitting right beside you now. So you are adequately interdisciplinary and I would hope that maybe you can use some of those who in the soft sciences, if I may use that term, have done such an excellent job of gearing in with the community. Maybe you can have them rub off a little bit of their marketing talents on the engineering and scientific types.

Mr. HORTON. I have no qualms about engaging in marketing.

Representative REUSS. Good. It is what we all do.

Third, on resources, that is tough. It's all very well for me to say why don't you do all these grandiose things, but as you point out, you are under a budgetary discipline from Madison and that is sort of a body count, unfortunately. But you do what you can and let me point this out. One of the reasons that Madison, the father and the mother university, has always been such a fighting cause for the farm housewife of Wisconsin, that when any legislator tried to lay a glove on any of those agricultural research or extension programs he heard about it at once, was because the University at Madison always did do a superb job of applied agricultural research. Well, you could in the process of expanding your activities develop a clientele which might do you some good in legislature circles.

Mr. HORTON. Well, let me just follow up on that. The agricultural community has as a base the Federal legislation land grant legislation which provided base funds from the Federal Government to provide both research and technology transfer. Now there's also urban grant legislation that's before the Congress to do the very same thing that I think you're requesting be done, at the same time providing a similar kind of base for those areas of the country that now provide by far the major portion of economic activity in this country.

Representative REUSS. We need in short a Morrill Act for technology transfer.

Mr. HORTON. I find it interesting that in the urban grant legislation going forward—and we're talking now about legislation which affects about 80 percent of the population of this country—the anticipated funding level of that act in the first year is $1.5 million. And somehow that appears to me to be inadequate to pursue some of the very important lines of things that I think urban institutions need to pursue.

Representative REUSS. Simply because resources are unfairly short it becomes that much more important for you to do what in your presentation you're set upon doing. And I congratulate you.

Mr. Schenker, didn't you have something to say during my monolog?

Mr. SCHENKER. I assume so. I do want to say that with limited resources, the production side will become more and more important. We have a leading expert in flexible manufacturing on this campus and we had an international meeting of flexible manufacturing here not too long ago. Again we're transferring this to the Milwaukee business community. Let me just say I think the business community also is becoming more aware of the problem. Many times in the past we talked about cooperation, but there was no need, you know, it was a nice thing to say. But I think the business community realizes it's in their best interest to work with the university and other people to create more jobs or business in the area. It's not in anyone's best interest to be in a situation of unemployment. So I think the fact that we're getting the trust of the business community. They're now talking to me about the possibility of letting me know areas where others may form a small firm to supply the large firm. In the past they would not even talk about this. So I think there is a feeling among the business leaders: Look we've got to sit down and talk to some people and come up with solutions to the problem. And I think the time is right where all parties are willing to sit down and talk to each other rather than point the finger at each other.

Representative REUSS. That says it all. And on that note let me thank you, Chancellor Horton, Mr. Schenker, and Mr. Heilmann for the great job you are doing and for the new resolve that is apparently in your presentation here today.

Mr. HORTON. Thank you.

Representative REUSS. We'll now stand in recess for 3 minutes and then we'll hear from Mr. Ward, Mr. Lee, and Mr. Franke.

[A short recess was taken.]

Representative REUSS. We will now hear from Mr. Ed Ward, president of the Milwaukee Private Industry Council on his own behalf and on behalf of County Executive Bill O'Donnell.

STATEMENT OF EDWARD J. WARD, PRESIDENT, MILWAUKEE PRIVATE INDUSTRY COUNCIL, INC.

Mr. WARD. Thank you, Congressman.

Representative REUSS. You're most welcome.

Mr. WARD. Nice to see you again. And I regret that my former employer, Clement Zablocki, couldn't be here to participate in the hearings but I——

Representative REUSS. Yes, he intended to be but he had the not enviable duty of going over to the funeral in Egypt.

Mr. WARD. We'd like to thank you—and governmental sector and the educational sector and for your past, and we're sure your future support, in keeping Milwaukee in a forefront in our quest for a better future.

While any set of prophecies or predictions that are presented at these hearings may not necessarily become a new framework for the future, I think we all believe that they do serve a useful purpose. They certainly make us focus not only on our short-range problems—but on long-range issues we must deal with as we fight for a better place in the future.

As we look at today's economy in the Milwaukee area, we clearly find many of the subsystems of our industrial society in trouble. The local labor market has gone from one of stability to one of great unpredictability. There are crises in the health delivery systems, the welfare systems, the banking systems, the school systems and family systems. Sweeping changes in Government services will be necessitated by State and Federal budget cuts. Many programs and services will be cut back and some eliminated entirely. The volatility of the Nation's bond markets and the current instability of the national economy make this an extremely poor time to engage in large-scale borrowing. Projections show that if Milwaukee County is forced to provide capital funding for the multi-billion-dollar deep tunnel plan proposed by the Milwaukee Metropolitan Sewerage District, the tax levy for debt service alone could total $155 million in 1987 and would remain above that level for the next 7 years. If Milwaukee County taxpayers are required to pay these costs, as County Executive O'Donnell says in his budget message, Milwaukee County Government may never be quite the same.

We should remember also that the emerging system of today grew out of various citizen initiatives in all parts of the United States to curb the runaway growth of Government programs, and their accompanying appetite for tax dollars. Elected officials, making good on their pledges to hold the line on taxes, return State surpluses to the people and get government off the backs and out of the pockets of American people, are thereby passing a substantial burden onto the local property taxpayer. In fact, the new mood was best stated by Murray Weidenbaum, Chairman of President Reagan's Council of Economic Advisers, in a recent congressional testimony favoring reduction of costs of Government regulation. Mr. Weidenbaum urged the committee, "Don't just stand there, undo something."

The challenge to local government today is to provide the best possible quality of services it can within the limits of available resources. Just as today's economic realities are requiring a reorientation of our governmental institutions, they are also generating much

86-352 O - 81 - 11

discussion about how the private sector should respond to the decreased Government role. This increased reliance on private sector resources is not a new thing for Milwaukee.

In 1977, County Executive O'Donnell realized that reliance on public services to meet many of the needs of society was not the answer. Public dollars have not stopped deterioration in inner cities, have not alleviated intolerable unemployment levels among minority youth nor improved our local educational system.

Mr. O'Donnell realized that one way to address these problems was to utilize the community's major source of technical, managerial, professional, and financial resources; namely, the business and labor community. He formed an economic resource development council and appointed leaders from business, labor, and government to address important issues in the following areas: One, employment and training; two, tourism and recreation; three, business development; and four, transportation.

This new partnership developed more effective services, often with less government investment. Here are some examples of how the private sector has worked cooperatively with county government in the past few years:

1. The development of customized training programs for economically disadvantaged workers in two local industries facing skill labor shortages—the foundry and printing industries.

2. The initiation of an industrial bus [I-Bus] from the inner city to an industrial site in Oak Creek which enables city workers to get to available jobs on the outskirts of Milwaukee County.

3. The startup, by the Metropolitan Milwaukee Association of Commerce, of a partnership program with 14 Milwaukee high school to bring the real world of work to local high school students and counselors.

4. The initiation of a summer youth program at Great America Theme Park in Gurnee, Ill.; which, for the past two summers, has provided jobs for over 80 Milwaukee youth.

5. The development of a national model program with the Wisconsin National Guard which provides a mix of military training and career assessment to high school dropouts and places them in jobs in the private sector.

6. Participation in a federally funded program to coordinate local economic development programs with employment and training programs.

These programs and others like them have gone a long way to bridge the traditional gap between the public and private sectors.

As we look ahead, this public-private partnership must fashion itself into one relying on more private sector initiatives. There are, however, different views on how the private sector can help. One view is that businesses should increase their charitable contributions or inkind services to nonprofit organizations. While the rate of private giving may rise, it would have to increase almost 150 percent by 1984 just to make up for the impact of inflation and fiscal spending cuts. It is unlikely that such a fourfold increase in spending will occur.

A more realistic view seems to be to apply profit-motivated principles to address society's unmet needs. These needs can be addressed

as profitable business opportunities which can also improve local social conditions. It is happening already, as we can see from some of the following examples:

1. The city of Milwaukee has teamed up with local business and the Rouse Co., to rebuild a section of the downtown.

2. Control Data Institute has opened a skill education center which provides training to economically disadvantaged workers.

3. Harnischfeger Corp. has operated a vestibule training center for CETA eligible individuals at its west Milwaukee plant for a number of years.

4. On October 1, a training center opened funded jointly by a national cable TV operator and the Milwaukee Private Industry Council to train hard-to-employ people as cable installers and cable technicians.

5. County Executive O'Donnell has appointed local business and labor leaders to study the county's general assistance program and make recommendations on more effective and cost-efficient ways to administer and operate the program.

6. In his recent annual budget message, County Executive O'Donnell has recommended that the Milwaukee County medical complex be severed from direct county control and operated as a private management corporation starting July 1, 1982.

Business and labor leaders know well what is at stake if we do not adequately address our community's pressing social needs. Their active involvement is critical to the local economy and to preventing deterioration in the quality of life.

We have a very good start and we are making progress, not just putting old wine into new bottles. Where do we go from here? At the congressional level, there are also encouraging signs that the continued development of the public-private partnership will remain a Federal priority. We hope that our local Congressmen will support specific policies designed to:

1. Further unbridle the private sector, giving it more freedom to devise its own solutions to problems.

2. Reduce Federal oversight and strict procedural compliance with greater emphasis on performance standards in Federal programs.

3. Review Government regulations from a cost-benefit view to demonstrate that expected benefits are at least as great as expected costs. For example, regulations regarding the governance and financing of sewerage projects impose an unjustifiable debt on the people of this community.

4. In many programs, cooperation can be fostered between government and the private sector by encouraging the desired outcome and letting the private sector fashion its own solutions rather than reaching an objective and mandating that procedure. The I-bus to Oak Creek is a good example of this. County Executive O'Donnell wanted to find a way to provide service to an area unserved by the transit system so that workers from the inner city could get to a major industrial area in Oak Creek. He advised the Private Industry Council of the problem and they set out to find a solution. The Private Industry Council, Metropolitan Milwaukee Association of Commerce, and representatives from plants in the industrial park met and devised a plan to present to the county board of supervisors to provide a bus to serve

first shift employees of the Oak Creek plants. The proposal was approved as a new route by the county board and is operating successfully today.

In addition, the project recently won a design competition award sponsored by the U.S. Department of Transportation and the National Endowment for the Arts. This project, and there are more like them, are good examples of the effectiveness of the public and private sectors putting their heads together.

The specific challenge to the private sector is to assist government in developing decisive, intelligent and humane policies in a period of constrained economic growth. There are imaginative ways to reduce undesirable outcomes of cutbacks in social programs. For example, six Baltimore corporations are currently raising private funds for programs the city has been forced to discontinue because of Federal funding cuts. The project, called the Blue Chip-in project, hopes to raise $500,000 and create or retain 1,200 jobs. The Milwaukee Private Industry Council intends to seek private sector funds to operate its summer youth program at Great America and its Wisconsin impact programs with the National Guard.

There is little doubt that the health and diversity of our local economy depends on business, labor, and government working together. This partnership requires more than stimulating and provocative ideas. It requires positive proposals and initiatives similar to those described above.

Once again, I appreciate the opportunity to appear at this hearing on behalf of County Executive O'Donnell and the Milwaukee Private Industry Council. In conclusion I would like to say that, as a young professional who wants to remain in Milwaukee, I look forward to the future with great hope. With all the probing, exploring, and dissecting we do, the future still remains what we want it to be and we can still choose the means to get there.

I do want to make a personal comment and that is as a young professional who is working and living in this community, I am often a little bit disturbed by some of the reactions by some of my peers who feel that they're powerless to change things. Particularly young people who feel that the Greater Milwaukee Committee and people that sit on this committee and run business in Milwaukee are the only ones that can effect policy decisions here. And it's up to the young people today, the people like Mike Brady and people like Frank Miller and people of that nature to get out and get their peers and start convincing them that they can really make a difference here in Milwaukee. And we can't just rely on those people who have been operating in this community for years and years and years, to make decisions which are going to affect us in 10 or 20 years. And I really believe that we can, with greater initiative on the part of the younger people in this community, look forward to a future with great hope in this community. I hope that we can convince more of the younger professional people in this community to do more and to address these problems with a little more vigor and enthusiasm.

Representative Reuss. A very good note on which to end, Mr. Ward. And I hope you give your missionary zeal a chance to operate. Tell the county executive that I'm very proud of the job he's doing, accomplishment is just a series of little things, and while the bus

to the Oak Creek plants or the getting the group down to the theme park at Gurnee, Ill., may not seem like earth-shaking achievements in themselves, but when you put them all together, that's what needs to be done, so tell him I am proud of the role he's playing.

Your statement is so clear and concise that there aren't too many questions that it raises. I do have one about the "hot potato" that you and the county executive are finding in the Milwaukee County medical complex. I've read the papers about his proposal and about Supervisor Bailey's alternatives that the hospital be taken over and operated by the Medical College of Wisconsin. Of course I'm really not equipped to comment on that except to say that one of the things that impressed me at this hearing was when Jim Rouse this morning, in speaking of his native Baltimore, mentioned the fact that one of the two biggest industries in Baltimore and one of the great drawers of visitiors to the city was Johns Hopkins Hospital. We have in our county medical institutions, public and private, and maybe the public is going to become private, I don't know, but whatever, institutions which do extraordinary medical job. The county, for instance, has an eye clinic that is nationally known at St. Luke's, and at St. Mary's and Mount Sinai there are coronary techniques that are world renowned. Yet I have to say that we don't seem to be putting this all together as the Baltimorians do with Johns Hopkins. You can say, well, that's all done in one institution, but heavens, the mental health facilities of Topeka, Kans., are scattered among a number of institutions. The surgical facilities of Rochester, Minn., are not in just one place but scattered around a number of hospitals and clinics. So to the extent that you and your private industry council have any extra time, consider—seriously consider marketing and packaging what is really a great resource. And as the county executive well knows the waste in the delivery of our hospital services throughout the community is shocking. Maybe a solution can be found which coordinates our hospital facilities and makes it more of a local service industry which can appeal to the people of the country over.

Mr. WARD. I think it's an area that the county executive has really labored over for several years, particularly this year we're predicting a $9 million deficit at the institutions. Fred Luber on the private industry council has been working with the county executive to try to put some new ideas into the bank and draw on some of the resources available to get this issue off dead center. But I will be very happy to pass that comment on to him. I'm sure he will appreciate it.

Representative REUSS. I think you'll find that we haven't asked that they're not sufficiently realizing the potential of this. I just have one final question. I have the impression that your Milwaukee private industry council is now working with the city on an admirable proposal to hire minorities particularly for new jobs in the downtown mall. You didn't mention that, but is that right?

Mr. WARD. We are, Congressman Reuss, and the proposal will be in its first draft form presented to Rouse Co. probably next Friday. Mr. DeVito in Baltimore when he was visited by Mr. Adelman of the Milwaukee Sentinel released the information that prematurely said we are attempting to set up a screen and referral service for the Grand Avenue merchants It's a private sector-operated service, so

that we really will be responding to what their labor needs are and breaking these needs down to occupational classifications. And we will be trying to promote through public service announcements the fact that there will be a number of new jobs and assist in the screening the people.

One of the reasons we're doing this is to assist the economically disadvantaged people in the city. Oftentimes they're overlooked for jobs, especially if they are not given a chance to learn proper types of search techniques or proper interviewing techniques. In Baltimore's harbor place when they did a similar project they hired over 800 people, 250 of them were economically disadvantaged or CETA eligible people. Now those people need some help. And we look at this as a service to the whole community and to the Grand Avenue merchants, but specifically we know that it will enhance employment prospects for people who are traditionally very hard to employ. And I'll be the project director of that project the coming year and I'm looking forward to it very much. I think we're going to accomplish a lot.

Representative REUSS. Good. Well I wish you well and I'm glad the press scooped us all on that because now you've got to do what it says you're going to do.

Mr. WARD. That's always good. They'll hold you to what you say. [Laughter.]

Representative REUSS. Thank you very much, Mr. Ward.

Mr. WARD. Thank you, Congressman.

Representative REUSS. And tell Executive O'Donnell we appreciate his work.

Mr. WARD. I will. Thank you very much.

Representative REUSS. Now, the chairman of the Urban Affairs Committee of the Wisconsin State Assembly. The Honorable Mordecai Lee. I'm delighted to have you here.

STATEMENT OF HON. MORDECAI LEE, CHAIRMAN, COMMITTEE ON URBAN AFFAIRS, WISCONSIN STATE ASSEMBLY

Mr. LEE. Thank you very much, Mr. Chairman.

The last time you and I were at a congressional hearing here in the Federal Building in Milwaukee was with the Humphrey-Hawkins-Ruess bill. And I was sitting in a corner——

Representative REUSS. You were busy arranging the pencils then.

Mr. LEE. Now things have changed a little bit, but I am really honored that you invited me to testify today. Since working for you I became a State assemblyman and for the last 5 years have been in the State legislature. And what I found is a lot of the perspectives that I learned from working under you are similar within the State government. And what seems to me is the most important thing that I learned when I was your legislative assistant is that there is a need to go beyond the rhetoric of whatever is claimed about a governmental program or a private sector program and look at the reality of it. And from a relatively careful scrutiny under my experience and knowledge now as chairman of the Urban Affairs Committee of the State legislature, what I found is that there's

not a broad understanding of the limits of what government can do and what government cannot do. It is all too often the perspectives are that either government can solve all problems or government cannot solve any problem.

And that really is often mistaken and misplaced. So if I could I would like to speak very briefly because I know you had a very long day and I know how hard it is to concentrate after a long hearing. I have been in some marathon hearings and it has been very, very hard to concentrate. So I would like to just speak very briefly about a couple of points that I think I would like to make in my perspective as being on State legislature and chairman of a committee that tries to come up with solutions to urban problems under the current economic situation.

It seems to me that government has made a couple of very substantial mistakes over the last 20 years. The first mistake it seems to me that government elected officials have made is they have all too often fallen for the rhetoric that there are magic solutions and we can get something for nothing. And it really is amazing that some of our colleagues and peers are suckers after all these years. But when we think about some of the programs, for example, industrial revenue bonding or moral obligation bonding or some aspects of tax incremental financing or the lastest gimmick that is on the horizon—urban enterprise zones. It seems to me that all of these programs tend to be sold with a kind of "here's something for nothing." "Here's how you can get progress without having to pay for it." And all too often it just seems to me that those free benefits have a cost. It is just that the people who are selling those new programs are not reviewing them or are not aware of the costs of some of these magic hocus-pocus solutions.

I think, even President Reagan is waking up to the problems of industrial revenue bonding which as I recall you, Mr. Chairman, saw the light many, many years ago and had concerns of our industrial revenue bonding many years ago.

Tax incremental financing similarly was sold as a way to get downtown development without paying the price of that kind of capital investment. Moral obligation bonding as was invented by John Mitchell who went on to bigger and better things was an even worse kind of invention and lately we have been told that there was a way to have urban economic development through urban enterprise. And once again, this is some kind of phony solution. I suggest that as Congress and the State legislature give close scrutiny to proposals they will find that there is a cost to them.

So it seems to me the first mistake the government has made in the recent past has been falling for these free solutions.

The second problem it seems to me the government is falling for is that it comes up with over broad responses to limited problems, because of a lack of critical scrutiny of the kinds of proposals that float up through the legislative process—whether it be in the Federal or whether it be on the State level. For example, capital gains tax cuts are usually accompanied with the rhetoric that they will create jobs. Well, in some cases that may be true but at the same time people can benefit from capital gains tax cuts by speculating on the stock market, by speculating in hot real estate markets, for example,

speculating in condos in southern California or in Florida, and by investing in collectibles or antiques. None of these has anything to do with strengthening the economic intrastructure of the country. And so it seems to me that when governments fall for this kind of rhetoric, that we are making a basic mistake. We are not critically scrutinizing the proposal to see whether it would indeed bring the benefits that its proponents claim it would.

Another mistake perhaps is the accelerated depreciation——

Representative REUSS. In that connection, where is the legislature on its review of capital gains? It's passed, has it not?

Mr. LEE. Unfortunately, yes.

Representative REUSS. That would have been a good time to, in my view, to go Governor Dreyfus one better in his generosity toward capital gains on things that really represent investment in plant and equipment. Stocks and bonds, fine, but to give capital gains for essentially gambling devices, gold commodities, precious metals, collectibles, does not make much sense. Yet the rain fell on the just and the unjust alike, when you fellows got through with it. You are almost as bad as we are. [General laughter.]

Mr. LEE. I think probably we are worse. Although what we did in this case is the version of the capital gains tax cuts that passed the legislature restricted those benefits to investments in Wisconsin firms, which was defined as either headquartered in Wisconsin or employing at least 250 people in Wisconsin.

Representative REUSS. That isn't bad. I meant the tax reduction is just with respect to investments in firms.

Mr. LEE. That was the version we passed—the language that said just in Wisconsin. But now it applies to all.

Representative REUSS. But it still—the reduction in capital gains that was passed just applies to stocks and bonds?

Mr. LEE. Would have applied only to investments in Wisconsin but the Governor, using his line item veto powers, eliminated the words, "just in Wisconsin." So now it applies to all capital gains.

Representative REUSS. Well, I hate to tarry too long on this, but if all he did was strike the words, "located in Wisconsin," that would have seemed to restricted the reduction in taxes to investments in companies.

Mr. LEE. No; unfortunately the way he used his pen.

Representative REUSS. I see.

Mr LEE. I wish he had not.

Representative REUSS. It's too bad.

Mr. LEE. I wish he had done it the way that you have just suggested.

So it seems to me that one of the overbroad responses to a limited problem is capital gains tax cuts. It could well be that the effect of the accelerated depreciation that President Reagan insisted on will have the effect once again of being an overbroad response, and may have a deleterious effect here on the Snow Belt by making it easier for corporations to rebuild their factories down South. It seems to me that getting back to tax incremental financing and industrial revenue bonding, that the problem with them is—whatever limited effect they could have that would be beneficial, they also have negative effects. For example, industrial revenue bonding is

often used by McDonalds to build a McDonalds' stand whereas they certainly do not need a governmental subsidy to decide where to build a McDonalds. We found situations involving shopping centers that are built on prime farmlands on the outskirts of urban areas here in Wisconsin. Those shopping centers are often financed through tax incremental financing, which is certinly not the result we intended. We were hoping the tax incremental financing could be used in downtown urban redevelopment efforts, rather than for purposes which just make it harder for urban development efforts to succeed.

A third problem that seems to me in the governmental responses to economic problems is that all too often we come up with irrelevant incentives that we think will make a difference in terms of urban redevelopmental or economic development but are in fact irrelevant. And this is the kind of "candy store" approach to tempting businessmen to invest in a certain area where governments come up with laundry lists of—"we'll give you a tax abatement, we'll give you a tax freeze, we'll give you free land, we'll give you this, we'll give you that," thinking that this kind of competition will somehow be the determining factor for businessmen in deciding where a plant should go.

It seems to me that this kind of "candy store" approach to private sector investment is irrelevant because various studies that I have seen are disinterested. The lastest two that I have seen—one of them was from the Council on State Planning Agencies and one of them was from the Academy for Contemporary Problems—both said that these kinds of pieces of candy are really not important in terms of the ultimate decision that businessmen make on where to invest. And it seems to me that this competition is not only irrelevant but expensive, as States try to outdo each other with a longer and longer list of tax breaks and pieces of candy. This is not healthy, and it certainly is not constructive. And so I think that State legislatures and city governments and county governments have really got to get away from being manipulated by various parties who say to them, "Well, if you just create another piece of candy, if you just create another tax break then maybe we'll get something." And this kind of competition just escalates enormously.

The final mistake that it seems to me that government has made occasionally in the past is that all too often it seems to me that we elected officials say to ourselves that if business and organized labor agree on something then it's a good idea. Then it's in the public interest. Now, it seems to me, Mr. Reuss, that indeed it's very helpful that through your hearings you are trying to focus the need for better cooperation amongst business, labor, and government. But it seems to me at the same time it's very important for those of us in government to maintain an independent perspective. That just because organized labor and organized business come to us elected officials and say, we agree on something, that doesn't necessarily mean it's in the public interest. It may well be in the public interest. It may well be a good idea but it's not necessarily a good idea. So I think we want to encourage cooperation and we want to be sure that we maintain an independent analysis of the proposals that come before us.

Representative REUSS. That's a good note to end on. And it brings to mind a legislative coalition which I was in a large part responsible for bringing into existence. In connection with the banking reform bill of a couple of years ago, as a result of my efforts there came into being a coalition of the AFL–CIO on the one hand and the American Bankers Association on the other. Unfortunately the coalition was against me and I got clobbered so I much appreciated your advice. Your testimony has been very valuable and since we have a moment or two before——

Mr. LEE. Could I have one last point?

Representative REUSS. Yes.

Mr. LEE. This won't take very long and so if I could just try to summarize. It seems to me the direction that we could go. It seems to me that to follow the "candy store" metaphor, the Government's got to get away from the candy-store approach and back to a kind of meat-and-potatoes approach. The Government should focus on basics and we should get back to basics to what we know we can do. For example, it seems to me that we know that the Federal Government with appropriate monetary and fiscal policy can help accomplish basic economic stability. We've thought the Government would help accomplish that. And so, for example, perhaps the goal of Federal Government is to move away from luxuries and exotic policies and back to the approach of what are the basic elemental needs of a stable economy.

On the State and local level it seems to me that in the State legislature on the local level that we've got to get away once again from this candy-store approach and back to what used to be called sewer socialism. Just basic healthy economic stability, basic healthy governmental services, the kind of essential and elementary services that are needed for a successful economic region, whether it be a good education system, a good transportation system, availability of utility services, appropriate public safety protections, good recreational services for employees and so on. But that seems to me that's one direction that we should go.

And finally my last comment is that it seems to me that on all levels of government we should focus on targeted policies that we know will make a difference and will make a difference in the areas that we want to make a difference. Whether it be the kind of narrowing capital gains tax breaks for real job creations, whether it be the kinds of new jobs tax credits that are often successful, those are the kinds of basic policies it seems to me government should focus on. Thank you very much.

Representative REUSS. Thank you. Back to basics. Very attractive ideas and philosophical systems have grown from acorns not half as big as that. I think you may be on the trail of something that should be very helpful.

Let me take a moment or two just to examine something which is quite specific and is related to the general problem of providing jobs. I raise it because I have the impression I think from reading the press that you have something to say on this subject. The subject you will be surprised to hear I bring up is Old World Wisconsin. Am I right, were you quoted recently as saying something about that?

Mr. LEE. Yeah.

Representative REUSS. Well, Old World Wisconsin happens to be an old love of mine. I was one of those instrumental in setting it up in the first place, and I think it is, as Williamsburg is and as Sturbridge Village is, a good thing. However, I've been reading what I think Senator Norquist has to say and may I ask what was your view? I think there was some distress on some people's part that here the historical society was being cut in its typical custodial and historical functions, yet was spending a good deal of money, some of it provided by the legislature on Old World Wisconsin. But tell me exactly what disturbed you because I want to make a suggestion or two to you.

Mr. LEE. Good; and I think we really do need suggestions. We had a public hearing on a proposal that would have split up the historical society into its research functions which would then be shifted to the University of Wisconsin. Old World Wisconsin and other historic sites would be shifted to another agency; perhaps the DNR. At the public hearing I made a comment saying that it sounded to me like Old World Wisconsin was turning into the Vietnam of the historical society. That there was not an adequate commitment for its success. And there was just a kind of a draining of resources of the society without any view in sight of successful accomplishment or of cutting its losses. And so it seems to me that one of the reasons Old World Wisconsin right now is not successful is that it's only partially complete and unless it's fully complete it can never attract the kind of crowds that are necessary to make it economically successful as Williamsburg is. If it remains only partially complete, then it will just continue to be a permanent drain on the resources of the taxpayers. And so there's a need of a basic kind of decision on whether it should fly or fall.

Representative REUSS. I think yours is a most justified inquiry and that of your colleagues is too, in saying that I don't have any opinion as to whether the historical society ought to be split in two or who ought to do what, I am concerned with Old World Wisconsin and you are quite right that it is now a drain. The State has an enormous investment in that. The State put up a lot of money to ease the land and the State of Wisconsin ought to be interested in Old World Wisconsin and it is. Therefore, I welcome these signs that leading legislators including yourself, are interesting themselves in the general plan of Old World Wisconsin and how it's being run because after all this is a public function, tax money is spent on it. I would hope that the interest is a constructive one, that is to say I believe that Old World Wisconsin is basically a fine thing and that we should do whatever we can to make it work.

But it has not been operated in a financially prudent way as is evidenced by the fact that it is not now making it. In the planning of it there were too many magnificent distances so that it's very difficult to get around it, and a handicapped person can't get around it at all. For a while they had a very expensive horse-drawn vehicle which was nice but unaffordable. Then you have the problem of Stonefield Village also owned by the historical society. Somebody really ought to put his mind on whether the historical society ought to go ahead and erect a new little village of its own at Old World Wisconsin or whether perhaps the Stonefield Village couldn't be amalgamated with it.

Consideration ought to be given to making Old World Wisconsin more compact so you solve the transportation program. The legislature ought to inquire what's happened to these various private fundraising drives. They're well intentioned but they haven't raised much funds. Maybe some suggestions can be made there. I would think, too, that the legislature ought to inquire what have Williamsburg, Mystic, Conn., Sturbridge Village, Dearborn, Mich., Old Salem, Ill., and various other historical scenic pleasuring grounds done to repair their financial shortfalls. I have the impression that some of them have done some dashing things.

If the only way to make a go of Old World Wisconsin was the mild and tasteful partial commercialization of it, that wouldn't bother me. That would seem to me to be much preferable to letting it become a perennial drain on the taxpayers and a half-constructed woebegone caricature of what it was supposed to be. So I think this is something for the legislature to get into and why you all have kind of backed into it because you were disturbed at some of the other cuts that the Wisconsin Historical Society was making. Am I right that the legislature has not, in recent years at least, really taken a good steady look at Old World Wisconsin?

Mr. LEE. That's accurate.

Representative REUSS. Are its affairs before your committee?

Mr. LEE. It's before the Government Operations Committee of which I am a member.

Representative REUSS. Which you are a member; yes. Well, I encourage you to do that and if you do, and I can be of any help, let me know, because with all respect for the historical society, and they've done a really classic job of historic preservation, numbering every log, now, beautifully, there's also a marketing problem, and it should be a success.

Mr. LEE. Yes.

Representative REUSS. So put your mind on that and we'll dedicate an equestrian statue of you some day. [General laughter.]

Mr. LEE. That's my dream.

Representative REUSS. At this point, Mr. Harry Franke, who used to be in your business, that was then called the assembly, has entered the room. We thank you.

Mr. LEE. Thank you very much.

Representative REUSS. Harry, would you come up?

We welcome you now to conclude our all-star witness list, Mr. Harry Franke, co-chairman of Goals for Greater Milwaukee. And we're just delighted to have you. You've been a friend of mine for many years. You some years ago graced my office one summer with a charming intern. How is she, by the way, all right?

Mr. FRANKE. She's very happy in Boston. Beautiful big building—the John Hancock Insurance, you may be familiar with several—the publicity with the windows——

Representative REUSS. We'll try to get that architectural problem fixed up. And you, Harry, along with Chancellor Horton, are co-chairmen of the very important and very hopeful Goals for Greater Milwaukee Committee. While your deliberations are not completed, I know you are into it heavily and we wanted you to be of as much help today as you can be on the questions before these hearings.

What is the economic future of Milwaukee and how can we make it a glowing one with good secure jobs and a happy life for all its citizens. How are we going to do that?

STATEMENT OF HARRY FRANKE, COCHAIRMAN, GOALS FOR GREATER MILWAUKEE: 2000

Mr. FRANKE. I would like to tell you that Goals 2000 program of Greater Milwaukee has the solution. [General laughter.]

Representative REUSS. Order. [General laughter.]

Mr. FRANKE. But I cannot make that kind of a representation. I think I can tell you though that you used the word "hopeful" and the project upon which we have recently embarked is certainly marked with a great deal of optimism and hope and I think on the basis of relative brief experience that we've had with it that it does offer an opportunity to contribute something for achieving the goals that you've established.

For example, in the letter that I received from your office, Congressman, you referred to the importance of bringing together business, labor, and various constitutencies in the Greater Milwaukee area and we have been successful in achieving that from a kickoff standpoint. Actually, Goals 2000 is not a new idea. Some 50 other communities around the country have embarked or have previously had such projects. Dallas was the first back in 1966. Shortly after the Kennedy assassination. And they've had varying degrees of success. Seattle, Atlanta, Pittsburgh, Akron, have all had marked success in achieving the objectives that they set out. Ours has been given birth for over an extended period of time. In 1979 Chancellor Baum, the former chancellor of UWM and the predecessor of Frank Horton, and the county executive and the mayor held a program in Milwaukee where the Goals leaders of other communities were invited. That was late 1979. The Milwaukee Journal followed that up with a forum looking at what a Goals program can do. And gradually a group of citizens accumulated a so-called board of directors so that now there are 125 people serving on a board of directors. Now, is this fluff, is this a bunch of names of people that get on a letterhead somewhere and don't do anything? No. The people that represent that board, and it's in the material that I have given you, are a true cross-section of the Milwaukee community. Every possible constituency that we could uncover is represented there. And we have had a series of meetings.

One morning I met and there were 22 labor leaders that showed up at 7:30 in the morning. This was not due to any great personality or charm on my part. It's John Schmitt, Tom Parker, Ralph Koenig, and Bert McNamara who served on our board and Jim Jesinski. We have five labor leaders on the board, invited their cohorts to be present. Even had the PATCO representative present at that meeting. We have met with representatives of other minority groups, the black community is well represented, the other ethnic groups, Hispanic and so on. So we feel that we have put together a board of directors that is truly represented by the Milwaukee community. Where do we go from here? What has been done?

Obviously this board cannot act like a board of directors of corporations. It's a seed bed, however, from which we draw our support and talent. We've set up nine task forces and one of those task forces falls directly in the area of the subject matter of your investigation, your meeting here today. It's called economy and employment.

Representative REUSS. I noticed that your task force rubrics, exactly fit us, economy and employment is directly what this hearing is about. The other goals are other goals that don't collide in any way and I commend you for a nice checkerboard arrangement you have here. Incidentally we've heard from John Schmitt, Ralph Koenig, as well as Chancellor Horton. Many of the people that have appeared here——

Mr. FRANKE. Many of the people that have appeared here in other capacities, that's the leaders of the community, are serving actively on our board. We have an executive committee of some 15. August 1 was our target date to get underway with a full time executive director. The month of August we devoted to setting up these task forces with the idea that in September they would have their first meeting, and all nine task forces have gotten together for an organizational meeting. As a result of our contacts and publicity, some 95 citizens volunteered to serve on the economy employment task force. I might say there are three cochairs as the material shows you, with John the first cochair, Ralph Koenig and Glen Jackson. At the first meeting they set forth what they considered a list of areas of concern, and the first one that everybody agreed upon was jobs. Concern about jobs. The environment for small business. Is the loss of heavy industry permanent? Is this going to be a continuing thing? Is there a lack of confidence in the future of Milwaukee? Is there a gap in what we are producing by way of labor skills and what industry is really looking for? These are some of the questions that they asked. They also cited lack of cooperation among various institutions, public, private, labor, and education. Negativism toward the profit motive.

Are politics preventing getting results? A lack of basic economic understanding. Intervention versus supply side economics. Social consciousness and the profit motive. These are just some of the things that came up at that initial meeting.

I'm hopeful that this task force will be working from now until next March—in March we've set a deadline for the economy and employment task force to come up with recommendations, first to identify the key issues as they are doing here, and then alternatives, options, solutions, then we're going public with that. We are using the model that other successful communities have, actually a ballot on that will go out to the entire Milwaukee citizenry for them to register their reaction to these alternatives and options that have been picked out by the various task forces. In our case we're particularly interested in the economy and employment task force. And we will have speakers bureaus going out talking to every possible organization group we have from March to September. It's called going public in a way. Then the final report will be written, we're going to wrap up our goals project by January 1983. This is not a self-perpetuated or a continuing thing. Will we achieve some of the objectives that you have set? I can only say that we're going to try.

Representative REUSS. But I have great, great confidence that you will. Obviously you weren't here this afternoon to give me your committee's or task force's recommendations because they haven't been made yet or even started. I would hope that our 2 days of hearings which are now about to be concluded will be instructive to your task force and I'll see that you get as many copies that you need. They should be off the press just as fast as we can manage it.

Mr. FRANKE. One of the questions I had in coming here was to know whether transcripts could be made available.

Representative REUSS. Well, this will be a printed copy, but we can get those to you quite fast. As well as there will always be a transcript here in my office. But that isn't very handy.

It's easy to pooh-pooh a venture like yours and say, well, this is just going to be a lot of pious platitudes, but I don't think that's going to be the case at all. I think the kind of people you've got working on it are going to take it seriously. And it is possible to effect the future by setting good goals. So I applaud what you are doing and I'm delighted you are one of those doing it, being an old admirer of yours, and I wish you well. Thank you.

Mr. FRANKE. Thank you.

Representative REUSS. Thank you very much.

Mr. FRANKE. Speaking of old admirers, do you recall the story of how my brother was out campaigning for me in 1950 and pressed the doorbell of a home on Newberry and Maryland, and a very attractive woman answered and my brother went into his pitch as to why she should vote for his brother, she was very pleasant, she said, I know, I'm living in a home that your grandfather built, here at Newberry and Maryland, and I would like to very much because I know the family to vote for your brother, but I'm going to have to vote for my son on the Democratic ticket. [General laughter.] And that was your mother.

Representative REUSS. That's a nice story. And that was a nice home that your forebearers built.

Mr. FRANKE. Thank you for the opportunity. Is Mr. Kupper here?

Representative REUSS. Yes, he is.

Mr. FRANKE. I just wanted to thank him for his courtesy. I just got off at the airport to get here and he was kind enough to schedule me at the end of the day and I——

Representative REUSS. We knew that and we appreciate it. So thank you very much and remember me at home.

Mr. FRANKE. Thank you.

Representative REUSS. Good. Our last witness will be Dawn Goshorn.

STATEMENT OF DAWN GOSHORN, PRESERVATION ACTION

Ms. GOSHORN. I feel very much at home after listening to the last two reports because I am on the Goals 2000 Economic Committee, and of course I live on Newberry. So I feel like I'm right here at home.

Actually I would like to speak to you on behalf of more than just Hatterhorn, but rather preservation action and, if I may, the inter-

national trust. We've just recently come from the National Trust Conference and that time the legislative body of both the National Trust and Preservation got together and we put together some objectives. Since these objectives fit into your bailiwick, Congressman Reuss, I would like to share them with you.

Representative REUSS. Before you start, could I direct your attention to my opening statement which occurred yesterday at which I laid down 12 great principles for our economic future. Great principle number 10 was: Adaptive reuse. Can't we revive your construction industry for offices, shops, businesses and residences by concentrating on rehabilitations? Milwaukee is blessed with great numbers of fine older buildings which could be modernized at a fraction of what it costs to build anew. What with the new Federal tax credits and liberalized depreciation that we have in buildings 30 or 40 years old and in historic buildings, a huge pool of activity could lie ahead.

Ms. GOSHORN. We hope so. We've had a forum, hope to be a part of that because that's the direction we're going. We're finding ourselves facing the same kinds of problems that all of the other people in the country are, and that is lack of financing. There is not enough money available and the interest rates that are being charged make it very, very difficult. For example, we've had marvelous help from Mike Kaplan and some of the others to try to get UDAG grants. They are predicated on being able to get financing. We cannot get financing because there is not enough money. The jobs that we are looking at would become very difficult because of the very high cost of that money. I think you're finding that UDAG grants are down a great deal because of that, but these are the kind of problems that are being faced in the field.

Representative REUSS. Well, high interest rates are murderous across the board.

Ms. GOSHORN. Right.

Representative REUSS. One financing mechanism for adaptive reuse, which is I think you are talking about.

Ms. GOSHORN. Yes, correct.

Representative REUSS. In our city, one financing mechanism which may hold out some hope is through the use of these new tax devices or gimmicks whereby if you find yourself a doctor or a dentist or lawyer of somebody who's making a lot of money and wants to shelter it, he's likely to have cash and not have to go to the money lenders for it and pay 23 percent.

Ms. GOSHORN. That's where we're looking at the wrong——

Representative REUSS. You're looking under the proper trees.

Ms. GOSHORN. And to that point, that's exactly the issue that I would like to address my statement to. Because we have found four areas of the new law that we would like to have you look at very closely.

Representative REUSS. May we have your statement?

Ms. GOSHORN. Sure. Preservation Action welcomes the initiatives of the Economic Recovery Act of 1981 which provide an important impetus for historic preservation in general and the rehabilitation of historic commercial properties in particular.

Preservation Action observed, however, that four provisions of the law bear further reexamination because they detract from the law's

potential for serving as an incentive for historic preservation and may even increase impediments preventing the registration of commercial historic districts, particularly in view of the owner consent provisions set forth in the 1980 Historic Preservation Amendments.

Therefore, we recommend to the Congress and to the administration the following changes in the Economic Recovery Act:

No. 1, the removal of the requirement for substantial rehabilitation in order to qualify for the benefits of the Economic Recovery Act. Let me illustrate. In many cities around the country, you will find that the land that the historic property sits on has enormous value and, can, verify that the basis of the property is very high. If the rehabilitation costs in order to come under the tax acts are at least $5,000 more than the basis, you can see where that can create a serious problem. And it benefits only certain protector people also.

The second suggestion is the reinstitution of the 5-year amortization provision as a permanent feature of the tax law.

Third is the deletion from the tax law of the remaining disincentive provision which disallows demolition costs—that's a hot one—and fourth, we urge careful monitoring with a view toward possible deletion from the tax law, should it prove a detriment to historic preservation objectives, of the stricture in the law that requires owners of certifiable properties within registered historic districts to take a 65-percent income tax credit or no tax credit at all.

For example, in the adaptive use project that we are looking at here, in Milwaukee, if we had to go with the 25-percent discount tax credit or nothing at all, we'd really be in trouble. Because it doesn't fit totally.

Representative REUSS. I'm not sure I follow.

Ms. GOSHORN. OK, if you——

Representative REUSS. If you can get 25 percent, why do you flirt with nothing at all?

Ms. GOSHORN. Because the project that we are looking at involves the use of condos and that is not considered under the regs, as we understand them, to be commercial. That is private residential. Are we understanding correctly?

Representative REUSS. The new law says that for a historic structure—is that what you are talking about?

Ms. GOSHORN. Yes, right.

Representative REUSS. You get a 25-percent investment credit and the adaptive reuse must be commercial or lodging—lodging. That's a new word. But that means rental.

Ms. GOSHORN. Right.

Representative REUSS. It can mean a hotel, that's lodging; or it can mean an apartment. It probably can't mean a condo or a house that you sell because that isn't lodging, that's the sale of a house.

Ms. GOSHORN. But the property we are looking at is of an historic nature, and the logical solution was that we have been able to find and we have been able to interest people in is to develop it as a condominum. And so it does not fit under the tax act and——

Representative REUSS. That's true. However, in all honesty, Congress, having gone into this great act of labor, is not likely to do so again for awhile. So I urge you to try to fix yourself to what Congress has done. Wouldn't it do for rental housing?

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Ms. GOSHORN. We're trying. We are trying to make the numbers work. But with the present financial burden that we've had to carry, the numbers just won't work. So far we've not been able—we've tried; we have a whole host of people working on it. Ron San Fillipo, for example, is on our team, and we just have not found a way as yet to make the numbers work for it. We're still trying.

Representative REUSS. If it is an existing building, you ought to be able to produce a tolerable rental apartment for somewhat less than new construction. Not much less but somewhat less, I would think.

Ms. GOSHORN. We'll keep working at it.

Representative REUSS. If you could do that, I would think that the 25-percent credit plus the 15-year, 125-percent declining balance writeoff which is in effect 9½ or 10 years, gives your doctors and dentists a good run for their money.

Ms. GOSHORN. I think the Economy Recovery Act is going to do more to help historic preservation than any other single factor that we've had to face today. It is really and truthfully revolutionizing a lot of thinking on the part of the people. So I very much thank you for it because I think you've been very much a part of getting that. These are just four suggestions that we had that we would like to have you consider.

Representative REUSS. Good. Well, all of those are improvements, but I don't want to arouse false hopes by saying that they're likely to be attached to the law very soon. So meanwhile I wish you luck in what you're doing and thank you for coming here.

Ms. GOSHORN. Thank you for the opportunity.

[The prepared statement of Ms. Goshorn follows:]

PREPARED STATEMENT OF DAWN GOSHORN

Historic Preservation, Legislative Priorities, 1981–82

1. Preservation Action urges the early reopening of the National Register for the listing of privately owned historic properties and districts and encourages the careful monitoring of procedures for the National Register as they develop. Proposed regulations should be disseminated as soon as possible so intent of the 1980 law can be implemented this year.

2. Preservation Action recommends that new program directives undertaken in response to the Housing and Community Development Act Amendments for 1981 respect fully the historic preservation responsibilities of all levels of government, especially the Department of Housing and Urban Development.

3. Preservation Action recommends that any legislation authorizing enterprise zones include measures to insure that historic preservation concerns are addressed and provided for.

4. Preservation Action has noted reports of the Department of the Interior's new policy, announced as "An Agenda for the 80s." Preservation Action urges that they be clarified and elaborated upon by the Department in order to insure that it does not lead to diminution of the Department's Congressional mandate for historic preservation concerns as set forth in the Historic Preservation Act of 1966 and as amended by the Historic Preservation Amendments of 1980.

5. Preservation Action urges the Department of the Interior to ensure that historic preservation fund monies allocated under the Congressional continuing resolution adopted on 30 September 1981 are made available on an expeditious basis to the National Trust and to the States for the implementation of federally mandated State programs for historic preservation.

6. Preservation Action welcomes the initiatives of the Economic Recovery Act of 1981 which provide an important impetus for historic preservation in general and the rehabilitation of historic commercial properties in particular. Preservation Action has observed, however, that four provisions of the law bear further re-

examination because they detract from the law's potential for serving as an incentive for historic preservation and may even increase impediments preventing the registration of commercial historic districts, particularly in view of the owner consent provisions set forth in the 1980 Historic Preservation Amendments. Therefore, Preservation Action recommends to the Congress and to the Administration the following changes in the Economic Recovery Act:

a. The removal of the requirement for substantial rehabilitation in order to qualify for the benefits of the Economic Recovery Act,

b. The reinstitution of the 5-year amortization provision as a permanent feature of tax law,

c. The deletion from the tax law of the remaining disincentive provision which disallows demolition costs; and,

d. Careful monitoring with a view toward possible deletion from the tax law, should it prove a detriment to historic preservation objectives, of the stricture in the law that requires owners of certifiable properties within registered historic districts to take 25 percent investment tax credit or no credit at all.

Representative REUSS. We've had very, very fine hearings and so at 5 o'clock we will announce the Joint Economic Committee in adjournment.

[Whereupon, at 5 p.m., the committee adjourned, subject to the call of the Chair.]

[The following information was subsequently supplied for the record:]

STATEMENT OF JOHN GILMAN, EXECUTIVE DIRECTOR, WISCONSIN COMMITTEE FOR PEACE AND JUSTICE

We cannot consider "the future of the Milwaukee economy" in a vacuum. Our economic future is directly tied to the economic future of the entire Country and to an ever escalating degree, that of the entire world.

The most important element in the "economic future of Milwaukee" is the well-being of the entire citizenry. The union busting of the present administration state and local governments and far too many industries, companies and law firms must be brought to a screeching halt if Milwaukee is to have a viable economic future.

Our great and powerful "Declaration of Independence" shook the entire western world by proclaiming that "all men are created equal and are endowed by their Creator with certain un-alienable rights, amongst these are life, liberty and the pursuit of happiness". In the course of human events this great "Declaration" now includes women.

Our decaying economy in Milwaukee is part and parcel of the decay in the northwest, entire mid-west and the mining communities of the border states.

Our economy and its future has a philosophical rather than a technological base. We must find ways and means to prevent the running away from Milwaukee of sources of employment and also stop the financial drain in the form of tax dollars being funneled into the parasitic military budget. Whole industries, as well as individual plants and companies have packed up and left Milwaukee for areas of cheap, yes in many instances even slave labor levels. Many of us can recall the great shoe, hosiery and other needle trades that once graced our skyline. At one time we had our own auto, steel and rubber industries. Our food processing industry was much, much larger than today—who has forgotten our tremendous tanning industry? Holeproof Hosiery Co. had the unmitigated gall to swindle its employees out of 10¢ an hour and then used the financial accumulation to move lock, stock and barrel to the then near slave wage level of the deep south. The wealthiest family in Milwaukee has recently closed its brewery, put the company on the auction block, refused to deny the rumour that the building shall be bulldozed and has shown absolutely no concern for some 500–700 employees many of advanced years and long time service with the company. None of these ever made any effort to prove that their difficulties, if any, were attributable to excess incomes on the part of their employees below the managerial level.

Milwaukee should, no, must extend and improve its present federally financed program of financing the rehabilitation of homes owned by low and middle income people.

We must create a mix of capital intensive, most high profit, high technology industries with labor intensitive and service industries often of a low or no profit nature. High excess profits taxes on the high profit industries could help subsidize the low profit and service industries.

Our future depends on the immediate well-being of those in the labor force who the present economy is failing to utilize. We must train and educate our young people for the skilled jobs and positions that will open, as our projections for the future begin to materialize. We must retrain and properly support those whose skills become redundant.

We can immediately put many skilled building craftsmen to work refurbishing dwellings now being bled by rapacious landlords, keeping in mind that many landlords, both resident and absentee are very sensitive about the condition of their properties and the needs of their tenants. Those landlords who ignore the needs of their tenants and the legal requirements of the building codes can be separated from their properties under the "right of eminent domain", a right securely anchored in our Constitution.

All of the above could be comfortably financed by closing the tax collection gap enjoyed by those having huge real estate holdings by leveling a tax on the oil and natural gas industry as voted in the recent session of the State legislature, but vetoed by the Governor, and last but not least, a massive cut back in our bloated military budget accompanied by serious disarmaments negotiations with the USSR. Former Ambassador Kennan has proposed an immediate mutual reduction of 50 percent—a proposal that received an immediate favorable response from Pres. Brezhnev, but so far has elicited no public response from the administration.

The Wisconsin Committee for Peace and Justice pledges to you, Mr. Congressman to exert every erg of physical and mental energy at our command to help extend and improve the "future of the Milwaukee economy".

METROPOLITAN MILWAUKEE ASSOCIATION OF COMMERCE

U.S. JOINT ECONOMIC COMMITTEE
OCTOBER 9, 1981 HEARING
Milwaukee, Wisconsin
- - -

STATEMENT OF ROBERT HOFFER
Chairman, Metropolitan Milwaukee Association of Commerce

The Association of Commerce welcomes the opportunity to focus on the economic future of the Milwaukee metropolitan area. It certainly is a subject of vital significance to the business community and one which needs considerable attention.

The major problems facing economic development in metropolitan Milwaukee center around our manufacturing base. Although Milwaukee has a relatively solid, diverse economy, there appear to be a number of clouds on the horizon. Manufacturing is the key to our economic future, since Milwaukee is probably more heavily industrialized than virtually any major community in the country. Given this heavy dependency, it is safe to say that "as goes industry, so goes our economic health."

There are a number of trends which present problems and/or challenges to future economic development in the metropolitan Milwaukee area.

1. Slower growth in the manufacturing sector. This is due to a number of factors, including automation, more mature and less high technology industries. Furthermore, certain types of industries have been hard hit due to foreign competition, the difficult investment climate, and the overall national economic slowdown. More emphasis will need to be placed on growth industries as well as on stimulating new enterpreneurs and assisting companies in their expansion needs. New efforts will be needed to stimulate the development of new technology related to our industrial base.

2. Shifting away from a goods-producing economy. The Milwaukee area is not as able to capitalize on this national shift to services from goods-producing as some other metropolitan areas due in part to our geographical location - being situated between Chicago and the Twin Cities which are major established regional service centers for transportation, finance, etc. While the Milwaukee area does have potential because of its high quality of life and some other important attractions for regional or national service firms, this is at least partially offset by Wisconsin's personal tax climate. Although this tax situation has been improving due to personal income tax indexing, capital gains reform, etc., there still is a way to go before we can be truly competitive. While additional efforts should be undertaken to try to attract regional and national service operations, we no doubt will have to continue placing our primary emphasis on manufacturing as our future economic base.

3. The labor situation. Milwaukee's workforce is probably the most crucial factor affecting economic development. But the jury is out on whether it will be an overall attraction or a deterrent to our future economic well-being. On the one hand, our tradition and reputation for a highly-skilled workforce has been a great asset to the development of Milwaukee's industrial base and, in turn, its relatively higher standard of living and quality of life. However as a byproduct, local wage rates are higher than many other parts of the country, which limits our ability to attract and retain companies requiring lower-skilled and lower wage levels. This also means it is harder for those with lower skills to acquire jobs here and creates a mis-match between job openings and those seeking employment.

   The growing skilled labor shortage probably represents either the major crisis or the greatest opportunity for economic development. Although Milwaukee's situation is still more favorable than in most other parts of the country, the implications are more important locally due to our heavy dependency on skilled-labor industries. The skill shortage will intensify both locally and nationally due to the smaller number of workers coming into the workforce for the next few years as well as the insufficient emphasis and interest in skilled careers. If the Milwaukee area can develop additional supplies of skilled workers in the future, it could make this area one of the most attractive places for economic development in the country and far outweigh many other locational factors. (With this in mind, the MMAC has joined forces with labor, the schools, and vocational systems to build up the skilled labor supply.) If such efforts are not successful, Milwaukee could be more severely impacted than other areas.

   In addition, there is an overall need for greater understanding and closer cooperation between business and labor to help assure that Milwaukee's labor force is productive and economical enough to compete successfully with its counterparts in other states. Both business and labor will need to more clearly recognize their mutual stake in making Milwaukee's economy healthy and that additional steps should be taken to develop a more positive working relationship to replace what has too often been an adversial stance.

4. A major factor in our future economic health is the intense, growing competition for our companies' jobs and investment. Although we are fortunate to have a strong industrial base, this results in our companies being contacted on virtually a daily basis by other communities around the country (and around the world for that matter) with attractive offers to relocate or expand in their area. This is a very serious challenge to Milwaukee's economy since by far most of its growth comes from companies already located here

and no doubt will continue to depend heavily on them for our future economic health.

This challenge is more formidable than in the past because local operations are becoming less tied to the Milwaukee area. For one, a large number of mergers and acquisitions of Milwaukee firms have shifted control over plant location and expansion decisions from local ownership to headquarter operations elsewhere which by their very nature have less "orientation" to Milwaukee. In addition, such acquisitions frequently mean a reduction in the use of local supportive services (e.g. legal, accounting, advertising, etc.) than previously.

Furthermore, the growing number of branch plants that Milwaukee companies now have around the country also makes it easier than in the past to decide on a non-Milwaukee location for an expansion.

Consequently more than ever before, Milwaukee needs to provide a business climate which will allow its companies to be profitable and able to compete effectively with their counterparts elsewhere. If we do not continue to improve our business climate, we will not be able to maintain a healthy economic base or provide the jobs and tax base our community will need in the future.

The most critical factor affecting Milwaukee's economic health at this time will be the success of the Reagan Administration's economic program. Reducing the growth in federal expenditures and the size of the deficit as well as reductions in the tax rates are critically important to reduce inflation and allow our national economy to return to a solid, healthy basis. Consequently it is very important that this program be supported and given enough time to straighten out the economic problems which have developed over a period of years. That in itself could do more to enhance economic stability in Milwaukee and other communities around the country than any other single factor.

The Administration's new directions will also require changes in local economic development efforts. With the increased emphasis on private sector solutions, there is a need for closer public and private sector coordination and cooperation in developing constructive and forward-looking actions to improve the local business climate and to stimulate and facilitate economic growth. With Milwaukee's strength in capital goods production, the new national stimulus for investment through federal tax incentives could dramatically improve our economic situation for the foreseeable future.

In conclusion, given the above trends and challenges facing economic development in Milwaukee, it appears that we will have to work harder than ever before to maintain and enhance our economic health. This will require a closer working relationship between business, labor, and government to be successful.

The achievement of M & E and inventory property tax exemptions in Wisconsin are an excellent example of successful cooperative efforts. The continuing improvement in the state tax climate (personal income tax indexing, capital gains reform, etc.) should directly help improve our situation relative to other areas. Given the strong competitive pressures facing us we still need to see continuing improvement in our ability to compete on a more equal basis with other communities. The MMAC would be happy to work with you and other interested parties in efforts to improve our economic future.

CGRB BULLETIN

CITIZENS' GOVERNMENTAL RESEARCH BUREAU

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56th Year of Citizen Service

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NEARLY $59 MILLION IN FEDERAL AIDS RECEIVED BY MILWAUKEE COUNTY GOVERNMENTS IN 1969 (or 1969-70). CGRB presents Seven SUGGESTIONS to improve the present limited coordination of 170 individual federal grants.

This Bulletin analyzing federal aids in Milwaukee county is presented as 1971 budgets of local taxing units are being adopted, and collective bargaining is brought to a close. Limitations of present revenue sources to meet the increasing costs of local government are prompting citizens and public officials to ask if the federal aids received by Milwaukee county governments are being utilized to best advantage.

Most local governments do not prepare a complete list of federal aids they receive, descriptions of aid programs, or an evaluation of completed projects. Some budget offices do not even have this information compiled in total form because aids are handled through individual departments and bureaus. CGRB's areawide tabulation of federal aids required detailed individual inquiries to all 44 local and school governments in the county, plus various departments within those governments.

Also, cooperation among agencies regarding aid programs is limited and in some cases, non-existent. With better information and specific procedures for more cooperation among the various agencies receiving aid, Milwaukee area governments could improve the use and benefits of federal funds received.

Our analysis of federal funding, which presents the areawide data for the first time, is prompted by several developments:

1) Federal aids to local governments in our county were nearly $59 million in 1969 and have increased in the current year. (See table, p. 3.) Other federal spending in the county (social security and retirement payments, defense contracts and personnel, veterans' benefits, interest on public debt, postal costs, federal agency costs, etc.) totaled over $600 million for fiscal year 1969, the latest reported year.

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2) Pending federal legislation will affect governmental programs throughout the budget year. The national Administration's revenue-sharing bill, recently endorsed at the annual conference of the National League of Cities, would provide some general-purpose federal grants to states and cities.

3) In 1969 federal aids provided 13% of revenues for county government operations, principally for welfare, and $7.8 million for capital improvements. In recognition of the increasing importance of federal (and state) grants for local revenues, the county board in November appointed a full-time fiscal liaison officer.

The city of Milwaukee received about 2.4% of 1969 operating revenues from federal aids, and the Milwaukee School Board almost 5%. The city created a department of intergovernmental fiscal liaison in 1966, and the School Board has a full-time staff responsible for preparing and processing applications for federal aid programs.

4) Suburban governments are becoming increasingly involved in federal projects: a) through the Intergovernmental Cooperation Council's proposed 5-year law enforcement improvement programs (involving over $1 million in federal safe streets act funds for 1971), and b) federal grants for sewer and other capital improvements.

I. Our Seven Suggestions

1) Budget documents of each local government should include a summary listing of all federal aids anticipated (and received for prior years) by that unit for both current operations and capital improvements--for more comprehensive fiscal control and accountability, and cost-benefit evaluation of hoped-for results.

2) One local agency, say a joint technical committee of fiscal liaison staffs (similar to the five taxing units' committee on capital improvements), should be responsible for preparing an annual report, to contain a functional analysis of the contents of programs and purposes of projects receiving federal aid in the Milwaukee metropolitan area. At present, it is very difficult to obtain the over-all picture of the functions, sources and amounts of aid received in the area.

3) The state Department of Local Affairs and Development, assisted by independent local agencies, should undertake continuing evaluation and cost-benefit analysis of federally-aided programs.

4) Federal officials should insist that the county, city, social development commission, school board, vocational school, sewerage commission, and suburban fiscal liaison personnel, where they exist, coordinate their efforts, exchange copies of their respective applications for federal grants, and cooperate among themselves to eliminate overlapping in the use of federal funds.

5) A joint committee should be created, representing all the governments and agencies concerned, to implement on a continuing basis the coordination described above. The committee could be similar to the Cooperative Area Manpower Planning System--composed of representatives of all Milwaukee area manpower agencies

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receiving federal funds--which meets monthly to exchange information, recommend manpower priorities and assist in on-going review and evaluation of programs.

6) Annually, a federal-local conference should be held, here in Milwaukee--convened jointly by the Congressmen and Senators representing the Milwaukee metropolitan area, for representatives of all public and private agencies receiving federal grants.

This conference could be a built-in device to minimize overlapping and stimulate greater coordination. The agenda should include digests of the accomplishments for the year, made possible by the federal aids. Such a conference might also reveal areas where better coordination among the federal agencies themselves would improve the over-all impact of federal grants upon the Milwaukee area.

7) Efforts should be made at the federal level to standardize and simplify application and funding procedures for programs, and to provide a greater degree of certainty that payment will be made and be received promptly, after program requirements are met.

II. $58.8 Million in Federal Funds Received by Milwaukee County Governments in 1969
(See pp. 5-6 for Detailed Information on Funds)

Unit of Government (for both current operations and capital improvements)	Federal Funds received in 1969(or 69-70) (1)	% of Total Federal Funds	INCOMPLETE listing of estimates of Funds 1970(or 70-71)
Milwaukee County--operations	$23,836,100	41%	$27,353,700
--capital improvements	7,875,400	13	15,000,000 plus
Sewerage Commission improvements	1,311,600	2	2,810,300
TOTAL MILWAUKEE COUNTY GOV'T.	$33,023,100	56%	
City of Milwaukee--operations	$ 1,965,000(2)	3	2,800,000
--capital improvements	2,590,000	4	1,709,000
Milwaukee Housing and Redevelopment Authorities	4,451,000	8	5,300,000
TOTAL CITY OF MILWAUKEE	$ 9,006,000	15%	
SOCIAL DEVELOPMENT COMMISSION	$7,767,000	13%	5,314,000
Milwaukee Public Schools	$ 7,086,000	12	7,542,400
Suburban Schools	622,100	1	589,200
Milwaukee Area Technical College	1,211,000	2	1,635,000
South Milwaukee Vocational School	70,000	--	None
Shorewood Opportunity School	4,200	--	350
TOTAL SCHOOLS	$ 8,994,100	15%	
SUBURBAN CITIES AND VILLAGES	$ 18,600	--	485,000
TOTAL	$58,808,800	100%	

1) Funds are reported for 1969 for governmental units on a calendar year and for 1969-70 for governments on a fiscal year.

2) In addition, the City receives $1,535,000 from the Housing and Redevelopment Authorities for administrative services. (These are shown in the total for the Authorities.

III. Highlights of Federal Aid Distribution

1) The county government received the largest portion of federal aids ($33 million). 72% of the total was for operations (mostly welfare functions), and 28% for capital improvements (freeways, sewerage disposal, airport improvements, park development).

2) Many federal programs are designated for urban-related needs (disadvantaged students, urban renewal, anti-poverty projects, etc.), so a large portion of federal funds was channeled to the city of Milwaukee. About 41% ($23.9 million) of total federal aids was spent by city agencies, or for services for central city residents.

3) In 1969 or 1969-70 suburban municipal and school governments received less than 2% of total aids. However, many suburbs have applied for funds for capital improvement projects (sewers, highways, open space development). South Milwaukee and West Allis have already received capital improvement project approvals which may total $740,000 (see p. 6)

4) 1969 federal funds for operating costs totaled $42,580,000 county-wide. Half of these funds were used for welfare programs and one-fourth for education.

Operating Funds	1969 Federal Funds	% of Total Funds for Operations
Welfare	$21,913,000	51%
Education	10,522,000	25
Adult manpower programs	5,817,000	14
Inner City community development	1,916,000	5
Health (not covered in welfare)	1,441,000	3
Physical community development	589,000	1
Other	382,000	2
TOTAL	$42,580,000	100%

5) County-wide capital improvements financed by federal funds in 1969 totaled $16,227,000 for the following:

Capital Improvements	1969 Federal Funds	% of Total for Capital Improvements
Expressways	$ 6,631,000	41%
Housing, urban renewal, codes	5,671,000	35
Sewers and sanitation	2,681,000	16
Parks	800,000	5
Airports	444,000	1
TOTAL	$16,227,000	100%

6) Local use of federal grants is complicated by the uncertainty of Congressional appropriations, the red tape involved in applying for programs, and delays in approvals and in receipt of funds after programs and projects are completed. In addition, local governments must deal with a variety of federal agencies, each with its own method of handling grants.

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INVENTORY OF FUNDING BY GOVERNMENTAL UNITS

Milwaukee County: Federal aids of almost $24 million provided 13% of 1969 revenues for county government operations. $21,913,000 was used for welfare grants and administration; $1,565,000 for the work employment program; $186,000 for mental health programs; $143,000 for mass transit technical planning, and the remaining $29,000 for civil defense, air pollution and crop land programs. Based on six-month estimates, the county expects $27,354,000 in federal aids for 1970 operations--nearly all for welfare-related programs.

In addition, the county received $9.2 million for capital improvements in 1969. Funds were used for freeway construction ($6,631,000), parks ($800,000), and airport runways ($444,000). The Sewerage Commission used $1,312,000 for sewerage extension and plant modernization.

The following funds for capital improvements are expected in 1970: $2,810,000 for sewerage commission construction; $554,000 for parks; $293,000 for airport runways and lighting. The expressway commission let construction contracts for $13,644,000 (primarily federally-funded) for the first three quarters of 1970, and are committing additional funds for the last quarter.

2) City of Milwaukee: Federal grants and aids of $3.5 million provided less than 3% of 1969 city operating revenues. Funds included: $1,535,000 for administration of housing and urban renewal programs by the Department of City Development (DCD); $960,000 for eight Health Department programs (including $298,000 for rodent control); $391,000 for open space and conservation; $198,000 for code enforcement; $192,000 for six library board programs; $136,000 for civil defense and crime programs; and $88,000 for other programs.

The Milwaukee Housing Authority and the Redevelopment Authority, corporate bodies with commissioners appointed by the city government, received $4,451,000 in 1969 for public housing debt service costs, and for urban renewal projects (including the $1.5 million listed above to DCD for administrative services.)

Federal grants for 1969 capital improvements included: $1,220,000 for code enforcement, $1,049,000 for storm sewers, and $320,000 for a river holding tank.

3) Social Development Commission: $7.7 million in federal funds were channeled through SDC for anti-poverty programs in the 1970 program year (October 1, 1969 through September 30, 1970). Funds provided: $3,809,000 for manpower programs (including $3,370,000 for the Concentrated Employment Program), $1,747,000 for Head Start, education and youth programs; $1,061,000 for community action programs; $547,000 to provide legal services; and $603,000 for five other programs.

Most applications for 1970-71 funds have not yet been approved, so programs are operating on a month-to-month budget basis. SDC currently estimates that $5,314,000--a significant decrease from 1970--may be received for 1971 anti-poverty operations.

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4) Milwaukee Public Schools: The Milwaukee school board received $7 million in federal aids in fiscal year 1970 (July, 1969 through June, 1970). The three largest programs financed were: $3,323,000 for communication skills programs for disadvantaged pupils: $926,000 for school lunch programs; and $768,000 for the Neighborhood Youth Corps. Other funds, totaling $2 million, provided instructional materials, teacher training, and special education for disadvantaged, handicapped and other special students; Head Start for pre-schoolers; and vocational education programs.

The Milwaukee schools anticipate $7,542,000 in fiscal year 1971 for the continuation of these programs.

5) 17 Suburban Schools: Milwaukee county suburban schools received $622,000 in federal aid for 1969 or 1969-70 school years. 55% of these funds were aids for the hot lunch and milk programs. (Schools also receive surplus food commodities from the federal government.) Other funds were used primarily to upgrade instructional materials and laboratory equipment, to provide counseling services, and for education of the handicapped.

Suburban schools anticipate $589,000 in federal aids in 1970 or 1970-71. School lunch aid is expected to remain at about the same level. A decrease in other aids is largely due to a reduction in funds for additional equipment and instructional materials. As schools up-grade their facilities to meet the federal guidelines, they no longer qualify for these funds.

6) Milwaukee Area Technical College: MATC received $1,211,000 in 1969 for Manpower Development and Training Act (MDTA) and Adult Basic Education (ABE) programs in basic education and job skills ($877,000), and for a variety of programs under the Vocational Education Amendments of 1968 ($334,000). In 1970 the MATC expects $771,000 for MDTA and ABE, and $863,000 for 34 different vocational education programs.

7) Suburban Vocational Schools: In 1969-70 the South Milwaukee Vocational and Adult School received $46,000 in MDTA funds and $24,000 in other federal aids. The Shorewood Opportunity School received $4,100 in 1969-70 and may receive $350 in 1970-71.

8) 18 Suburban Cities and Villages: In 1969 eight of the Milwaukee county suburbs received a total of $18,550 in federal aid for civil defense and police protection programs. In 1970 these revenues should increase to an estimated $45,000 due to additional monies available under the Safe Streets Act of 1968. Also, in 1970 West Allis will receive $440,000 from the U. S. Department of Housing and Urban Development for construction of storm sewers.

South Milwaukee has received tentative approval from the Federal Water Quality Agency for 25% funding of a secondary sewerage treatment system (estimated total cost--between $1-3/4 and $2 million). Fox Point, Franklin, Oak Creek, St. Francis, Shorewood, and Wauwatosa have proposals pending for capital improvement projects: sewers, highways, open space development.

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